Report On

The Role of Economic Factors in Influencing Treasury Risk Management of Bank Asia PLC

By

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21104011

An internship report submitted to the BRAC Business School (BBS) in partial fulfillment of the requirements for the degree of
Bachelors of Business Administration (BBA)

BRAC Business School (BBS)
BRAC University
February 2025

Declaration

It is hereby declared that

1. The internship report submitted is my/our own original work while completing degree at Brac University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I/We have acknowledged all main sources of help.

Student's Full Name & Signature:

Nuzhat Tanisha
21104011
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BRAC University

Supervisor's Full Name & Signature:

Dr. Mohammad Enamul Hoque,
Associate Professor, Brac Business School
BRAC University

Letter of Transmittal

Dr. Mohammad Enamul Hoque,

Associate Professor,

BRAC Business School

BRAC University

Kha 224, Bir Uttam Rafiqul Islam Ave, Dhaka 1212

Subject: Submission of internship report on ‘The Role of Economic Indicators in Influencing Treasury Risk Management of Bank Asia PLC’

Dear Sir,

It is an honor to present to you my report on the ‘The Role of Economic Indicators in Influencing Treasury Risk Management of Bank Asia PLC’ as the final requirement to complete my Bachelors in Business Administration (BBA) degree.

I have tried my very best to complete the report by using all possible available data and authentic sources. I hope the report meets up to your expectations.

Sincerely yours,

Nuzhat Tanisha

21104011

BRAC Business School

BRAC University

Date: February,2025

Non-Disclosure Agreement

This agreement is made and entered into by and between Bank Asia PLC and the undersigned student at Brac University, Nuzhat Tanisha (21104011).

Acknowledgement

I would like to express my deep gratitude to everyone who supported me during my internship. First, I would like to thank my on-site academic supervisor, Mr. Kamonasish Saha, and the enire risk management department team at Bank Asia PLC for providing me valuable guidance during my tenure as an intern. I would like to thank my academic supervisor, Dr. Mohammad Enamul Hoque for not only guiding me during my internship but also for being my mentor during my time as a fourth-year finance major at the university. Finally, I would like to express my heartfelt gratefulness towards my parents and friends who supported while I embarked on this journey into the corporate world.

Executive Summary

The following study analyses the data of different economic indicators from the recent five years and correlates them with the performance of the treasury department operations conducted in Bank Asia PLC during the same time period.

The report consists of three chapters. The first chapter is brief, providing information about my internship experience at Bank Asia PLC from September 2024 to December 2024. The chapter includes, general information about the information, learnings acquired and difficulties faced during the internship, and recommendations to the organization to improve the internship experience for future interns.

The second chapter delves into the basics of the company analyzing the major operations of the department such as management, marketing, financial and accounting, operations system management practices of the bank. The chapter also provides an industry analysis for the bank comprising of SWOT, Porter's five forces and PESTLE analysis.

The third, final and most important chapter of the report looks into the impact of economic indicators on treasury risk management of Bank Asia PLC. The chapter takes into account major indicators such as GDP, interest and inflation rate and foreign exchange to uses as metrics to judge their influence on the management and performance of treasury department od Bank Asia PLC.

To conclude, my experience at Bank Asia PLC has not only given me a chance to experience corporate life and deploy theories learned in a practical setting but also enhanced my knowledge on various topics as a byproduct of writing this report.

Keywords: GDP, Interest rate, Inflation, Foreign Exchange.

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List of Acronyms

ALM	Asset-Liability Management
BAF	Bank Asia Foundation
BDT	Bangladesh Taka
CDR	Cost to Deposit Ratio
CRAR	Capital Adequecy Ratio
CSR	Corporate Social Responsibilities
EPS	Earnings Per Share
FY	Fiscal Year
GDP	Gross Domestic Product
IMF	International Monetary Fund
LCR	Liquidity Coverage Ratio
NBFIs	Non-Banking Financial Institutions
NEER	Nomial Effective Exchange Rate
NIM	Net Interest Margin
NPL	Non-performing Loan
NSFR	Net Stable Funding Ratio
RAW	Risk-Weighted Assets
REER	Real Effective Exchange Rate
ROA	Return on Assets
ROE	Return on Equity
SDG	Sustainable Development Goals
SLR	Statutory Liquidity Ratio
SME	Small and Medium Sized Enterprizes
USA	United States of America
USD	United States Dollar

Chapter 1 : Introduction of Internship

1.1 Student Information

Name	:	Nuzhat Tanisha
Student ID	:	21104011
Program	:	Bachelor of Business Administration (BBA)
Major	:	Finance
Minor	:	Computer Information Management (CIM)

1.2 Internship Information

1.2.1 Period, Company, Department Address

Period	:	3 months (22nd September, 2024 – 21st December, 2024)
Company Name	:	Bank Asia PLC
Department	:	Treasury Mid Office
Address	:	32 & 34 Kazi Nazrul Islam Avenue, Kawran Bazar, Dhaka-1205, Bangladesh

1.2.2 Internship Company Supervisor's Information

Name	:	Kamonasish Saha
Position	:	FAVP, Head of Treasury Mid Office

1.2.3 Job Scope

The Treasury Mid Office is a part of the Risk Management Division at Bank Asia PLC. They are primarily responsible for assessing counterparty limits, forex risk factors, monitor market risk for asset-liability management and maintain documents to conduct corrective actions and resolve limit breaches etc. As an intern working under the department I was responsible for:

- Extracting data from financial statements of various banks and inputting them into the bank's database
- Ensuring there is no gap of information in the database by rechecking previous inputs and correcting missing/wrong inputs.
- Gathering information about credit ratings and expiry date of said credit ratings of various banks.
- Gathering information of sector wise credit and classified loans of various banks from financial statements for the year 2022 and 2023 and organizing them in a premade excel sheet. Data collected on more than 12 sectors.

1.3 Internship Outcomes

1.3.1 Contribution to the company

The Risk Management Division of Bank Asia PLC is required to be always on alert considering they have to constantly keep a track of market updates and keep a close eye on competitors and debtors to ensure that they provide the risk assessment findings to management, who will then use it to effectively use the data to develop a winning strategy. As an intern I was not allowed to do the heavy duty analysis for the department but I was responsible for conducting the small tasks such as data extracting that would aid the team in completing their analysis. As an intern

I was responsible for extracting data from a premade excel sheet that contained information from the income statement and balance sheet of 60 banks for the year 2023 and input them into the departments database. Some of the information was already present in the database, my task was to ensure that the data not missing and was correct. The data base contained information on nearly 80 elements covering various expenses, incomes, assets, liabilities, equity, ratios etc. Information from the database is often used to generate reports hence it is necessary that the data is present and correct in the database to ensure accuracy of the reports and by default accuracy of decision making. Furthermore, I was responsible for gathering information for credit ratings on various banks. Banks often lend to other banks. Hence, gathering information on credit ratings of such banks not only helps analyze the competitors but also helps assess counterparty limits by the department. I was tasked to find out sector wise credit and classified loans of various banks. The information collected was for 12 sectors and for 2 years, 2022 and 2023. This helped the department perform analysis on competitor and potential risk of those said sectors.

1.3.2 Benefits to the student

As a student during our academic semesters, we learn the theoretical aspects of our study. Often time it happens so that dude to practical experience accompanying those lectures, as students we are often unable to grasp the concept of the teachings. Working at Bank Asia PLC helped me see first-hand practical application of those concepts. I was able to understand how different variables in a bank's financial statements affect one another. In particular, how interest income and expense impact the bank's cost of fund. The impact of classified loans on provisions assigned by the bank. The effect on risk-weighted assets on the bank's capital adequacy ratio. Furthermore, while gathering data on credit ratings helped me gather knowledge on various credit-rating organizations, both local and international. The information collected on sector wise credit helped me get an insight on the concentration of loans provided to various sectors by the banking industry. Overall my time at Bank Asia PLC left me with valuable experience, which will help me in succeeding in my career goals in the financial sector.

1.3.3 Challenges

Although my time at Bank Asia PLC left me with valuable experience but these experiences were not without challenges.

- I was contacted by the HR of Bank Asia PLC within weeks of applying for the internship position. I was asked to provide my grade sheet and a forwarding letter to the HR which I had done so immediately. However, despite my prompt response the HR took more than 2 weeks to get back to me. As a student looking for the job, the late response put me in worry as the confirmation of my internship was in doubt.
- I was the only intern in the department, which made it difficult for me to connect with a colleague at the department.
- The department’s database was outdated and hence after completing an entry the page would reload back to the home page and I would have to input the particular bank’s details again to redirect me back to the report page.
- The database would also redirect back to the login page after a while which made the work cumbersome.

1.3.3 Recommendations

In order to improve an interns experience at Bank Asia PLC the organization can implement certain improvements.

- The HR department should make their intern approval process quicker, as to not lose onto good candidates who joined somewhere else because of that place’s timely response.
- The HR department had a hard time scouting interns due to low application for the process. They should launch a flagship internship program to recruit interns. This will all them to generate more applications and a better working environment for interns where they will find it easier to develop workplace relationships.
- As an intern I was not provided with any identity card and there was a sheet on my desk which I used to record my in and out time. During the end of the month the sheet was submitted to the HR for processing my salary. I would receive a pay slip which I would then have to cash out from the bank. This is a lengthy and unnecessary process. Interns should get an ID card which can be scanned to maintain in and out time. The list will automatically go to the HR at the end of the month which they can use to process the salary. Instead of having to cash it out of the bank every time, the HR can send the money directly to the intern’s bank account. This will eliminate all the redundant process in between.
- The Treasury Department should improve their database to become more user-friendly and the data to be more uniform. For certain years the data is given as the full amount and for certain years the data is given in millions. This makes it difficult to generate reports.

Chapter 2 : Organization Background

2.1 Introduction

Chapter 2 of the report will analyze Bank Asia PLC's operating practices. The chapter will provide an overview of the bank through its company profile, mission and vision statements, awards and CSR activities. The chapter aims to evaluate the working practices of the primary departments of Bank Asia PLC, Human Resources, Marketing, Operational and, Finance and Accounting. The section will give a review of the bank's human resources activities by evaluating the leadership styles, compensation policy and, training and development initiatives. The marketing activities of the bank will be summarized using services, pricing strategies and promotional campaigns. The operational end of the bank will be discussed using the methods used by the bank to deliver its services. The financial and accounting section will deal with the bank's accounting practices and provide a comparison using various ratios and peer analysis. The chapter will also provide an Industry analysis for the bank using SWOT and Porter's five forces analysis. The internship at Bank Asia PLC was for a brief three months' time. This limited timeframe did not allow for an in depth analysis on the bank's overall operations. Moreover, as an intern there were restrictions on data accessibility. However, despite the obstacles a complete effort was given for the analysis provided.

2.2 Overview of the Organization

2.2.1 Company Profile

BANK ASIA PLC **DSE: BANKASIA**

Sector : Bank

Current Market Price : BDT 17.30 on 28/10/2024 **Credit Rating: LT "AA1", ST "ST-1"**

Company Fundamentals	
Market Capitalization (mn)	21452.69
Authorized Capital (mn)	15000
Paid-Up Capital (mn)	11659.07
Total Shares	1165906860

Table 1: Bank Asia PLC Company Fundamentals
Source: LankaBangla Financial Portal

Company Overview

In 1999, a small group of prominent entrepreneurs started Bank Asia PLC with an ambition to benefit of the growing economy in Bangladesh. Headed by experienced bankers the bank soon reached new heights which saw their 2003 IPO recording an over-subscription with a record 55 times in the history of the country's capital market. Over two-decades later, the bank is helmed as one of the top privately-owned banks in the country.

Financials (millions)	2019	2020	2021	2022	2023
Operating Income	16350.17	13398.40	17291.01	20691.15	21467.86
Operating Profit	942.87	6106.81	9552.45	10869.24	11719.01
Profit after tax	1957.81	2024.49	2728.27	3052.33	2478.25
Assets	353800	408961	438293	468410	474229
Liabilities	331133.6	383844.5	413822.45	442258	447231
Equity	24586.58	27208.4	27203.75	28463.84	29402.74
Retained Earnings	1800.26	1918.25	2651.00	2957.00	3350.45
Dividend	555.19	1165.91	1165.91	1748.86	1748.86
Probitability					
ROA	0.59%	0.50%	0.60%	0.70%	0.50%
ROE	8.16%	7.80%	9.90%	10.90%	8.20%
Leverage					
Debt to Equity Ratio	13.30%	13.94%	15.02%	15.35%	15.06%
Valuation					
EPS	1.68	1.74	2.34	2.62	1.79
NAV per share	21.22	23.48	23.46	24.56	25.32

Table 2: Bank Asia PLC Financials
Source: Bank Asia PLC Annual Reports

Company Profile

- **Founded:** November 27, 1999
- **Key Personnel:** Mr. Romo Rouf Chowdhury (Chairman), Mr. Sohail R K Hussain (Managing Director)
- **Headquarters:** Bank Asia Tower, 32 & 34, Kazi Nazrul Islam Avenue, Karwan Bazar, Dhaka
- **Branches:** 135
- **Employees:** 2751
- **Sustainability and CSR:**
  - Bank Asia Headquarters have been designed to utilize energy efficiency
  - Bank Asia PLC has substantial involvement in Green Finance
  - Bank Asia Foundation has been established to carry out Bank Asia PLC's CSR actitvites on its behalf.

2.2.2 Mission & Vision

Mission

“Bank Asia PLC looks towards, a prosperous future ahead for itself and aims to,

- To assist in bringing high quality service to our customers and to participate in the growth and expansion of our national economy
- To set high standards of integrity and bring total satisfaction to our clients, shareholders and employees
- To become the most sought after bank in the country, rendering technology driven innovative services by our dedicated team of professionals”

Vision

“A poverty free Bangladesh in course of a generation in the new millennium, reflecting the national dream. Our vision is to build a society where human dignity and human rights receive the highest consideration along with reduction of poverty”

Core Values

- “Place customer interest and satisfaction as first priority and provide customized banking products and services”
- “Value addition to the stakeholders through attaining excellence in banking operations”
- “Maintain high ethical standard and transparency in dealings”
- “Be a compliant institution through adhering to all regulatory requirements”
- “Contribute significantly for the betterment of the society”
- “Ensure higher degree of motivation and dignified working environment for our human capital and respect optimal work-life balance”
- “Committed to protect the environment and go green”

Source: Bank Asia PLC Website

2.2.3 Services

Deposit Accounts	
Savings Account	Regular interest bearing saving account
Current Account	A non-interest bearing interest account for frequent transactions
Star Savings Account	For customers who want to deposit a larger amount than usual saving accounts
Fixed Deposit	An account that holds a fixed amount of money for a fixed period of time and interest rate
Shanchay Plus	An interest bearing investment account with a minimum of TK. 100,000 deposit or a multiple of that amount.
Deposit Pension Scheme	A savings account with monthly deposits that can me collected at time of maturity
Monthly Benefit Plus	An interest bearing account with an initial deposit of Tk. 200,000 or its multiple and receive monthly interest
Double Benefit Plus	A depositor will receive double their deposited amount including interest at the end of the tenor
Triple Benefit Plus	A depositor will receive triple their deposited amount including interest at the end of the tenor
Shonchoy e Koti Poti	A deposit account with the objective of making the deposit into a millionaire
Achol	A deposit account designed for women clientle of ages 18 and above
Duronto	A savings account for parents to save money for their children
Bhromon	A short-term deposit account for travellers
Nirbhabona	A savings account designed to deliver monthly benefits to senior citizens

Consumer Loan	
Home Loan	Loan to aid purchase of flat/house, construction of building, renovate apartment/house, etc.
Auto Loan	Loan for the purchase of vehicle for personal use.
Unsecured Personal Loan	A term loan for salaried individuals with a minimum income of Tk. 15000/month
Loan for Professionals	Loan scheme for self-employed professionals to aid in running their businesses.
Senior Citizen Support	Loan scheme to support elderly individuals of Bangladesh
Student Support Loan	Loan scheme for students who want to pursue higher education

SME	
Sondhi	Secured trading loan
Shombridhi	Secured manufacturing loan
Sheba	Secured loan for service
Shomadhan	Secured loan
Subidha	Unsecured trading loan
Sristi	Unsecured manufacturing loan
Shofol	Unsecured loan for service
Start-Up Loan	Secured loan for Start-ups
Utshob	Secured festival loan for businesses
Subarno	Secured Loan for women entreprenuers

Other Services			
Credit Card	**Locker Service**	**Islamic Banking**	**Rural Finance**
Centralized Trade Services	**Capital Market (Bank Asia Securities Ltd)**	**Offshore Banking**	**Government Securities Investment Window for customers**
RFCD Account	**Foreign Remittance Service**	**Student File Service**	**Digital Banking**

Table 3: Bank Asia PLC Services
Source: Bank Asia PLC Website

2.2.4 Corporate Social Responsibility

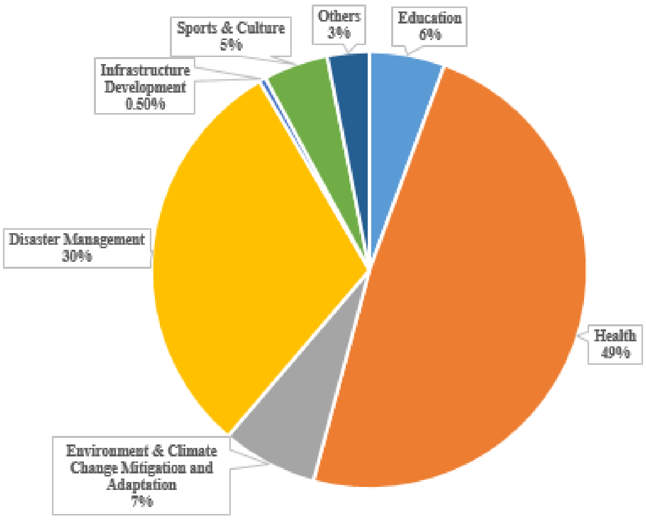

Figure 1: Bank Asia PLC CSR Initiatives (Jan 2022 - Dec 2023)
Source: Bank Asia PLC Website

Bank Asia PLC is a committed participant in Corporate Social Responsibility (CSR) practices. During January 2022 and December 2023, Bank Asia PLC contributed a BDT 563.76 million towards CSR initiatives. Figure 1 shows the breakdown of the contribution into various impactful sectors of the society. A progressive country is a country which ensures its citizens have access to health services. The pandemic made the world realize of even the biggest economies can crumble if they have a week health infrastructure. Hence it is important that countries all around the world have a strong health infrastructure to avoid any form of health disaster again. Bank Asia PLC understands the importance and have contributed almost half of their CSR investments towards the health sector by participating in 28 projects/events which has impacted more than 153793 individuals. Bangladesh is a country that is projected to be deeply impacted by climate change. The projections are proving to be correct as the country is hit with frequent cyclones. Bank Asia PLC in order to alleviate the life of those leaving in critical zones have contributed more than 30% of their CSR funding to disaster management efforts by helping provide lifesaving essentials to victims. The organization's efforts weren't limited to only these two sectors as they have also significantly contributed towards the improvement of environmental, infrastructural, education, sports and culture and various other areas.

Bank Asia Foundation

In 2017, Bank Asia PLC's philanthropic efforts took the form of a foundation Bank Asia Foundation (BAF), committed to carry out the organization's CSR initiatives. BAF's projects primarily focus on the health sector with the foundation managing a 250 bed hospital as well as a medical college known as Bank Asia-Ma Amiran Hospital and Diagnostic Centre at Malkhanagar, Sirajdikhan, and Munshigonj. Since its inception till June of 2023 the hospital has treated over 60,000 patients. BAF is also planning on erecting another branch of Bank Asia-Ma Amiran Hospital and Diagnostic Centre designed to be 3 stories tall and have a capacity of 50 beds. BAF also recognizes the bright minds of the younger generation of Bangladesh and has given higher education scholarships to over 300 students to build a bright future for themselves and Bangladesh.

2.2.5 Sustainable Finance

Sector	No. of Borrowers	Amount (Million tk.)
Green Finance	946	5882.82
Sustainable Linked Finance	162431	81965.48
Total in Sustainable Finance	163377	87848.3

Table 4: Bank Asia PLC Sustainable Finance Contribution
Source: Bank Asia PLC Website

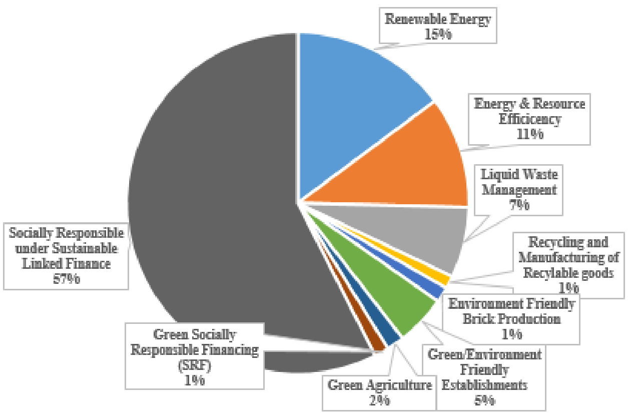

Figure 2: Bank Asia PLC Sustainable Finance Contribution Breakdown
Source: Bank Asia PLC Website

Bank Asia PLC recognizes that sustainability is the future. Hence, the organization incorporates Sustainable Development Goal (SDG) in their operations. As shown in Table 4, Bank Asia PLC has approved over

BDT 87000 million in loans for sustainable projects. Figure 2 shows a breakdown of the areas these loans were dispersed into. As a result of their initiative Bank Asia PLC has ranked among the top 10 banks in sustainability index by Bangladesh Bank in 2021 and 2022. Bank Asia PLC follows the Environmental and Social Risk Management Guidelines (ESRM) proposed by Bangladesh Bank. As of 2011, all investment proposals are reviewed under Environment and Social Due Diligence (ESDD) guidelines. Bank Asia PLC during 2022 and 2023 have participated in Carbon offset projects by issuing funds amounting to over BDT 13000 Million to 155904 rural farmers. Bank Asia PLC's headquarters are designed to limit energy consumption. The practices are not only limited to the headquarters as the bank's branches also extensively use solar power for electricity. Furthermore the bank mostly uses email for communication and important documents are stored in computer database instead of paper. The organization further fosters sustainable practices by recycling paper and donating old equipment.

2.2.6 Awards and Achievements

- **2023 SAFA (South Asian Federation of Accountants)**

  Gold Award for Corporate Governance

  Silver Award for private sector banks

- **2023 ICAB (Institute of Chartered Accountants of Bangladesh)**

  1st position Corporate Governance Disclosure

  1st position Private Sector Banks

- **2023 NCSR (National Centre for Sustainability Reporting) and ICSP (Institute of Certified Sustainability Practitioners)**

  'Silver Rank' in Asia Sustainability Reporting Rating (ASRRAT) for Sustainability Report

2.3 Management Practices

2.3.1 Company Organogram

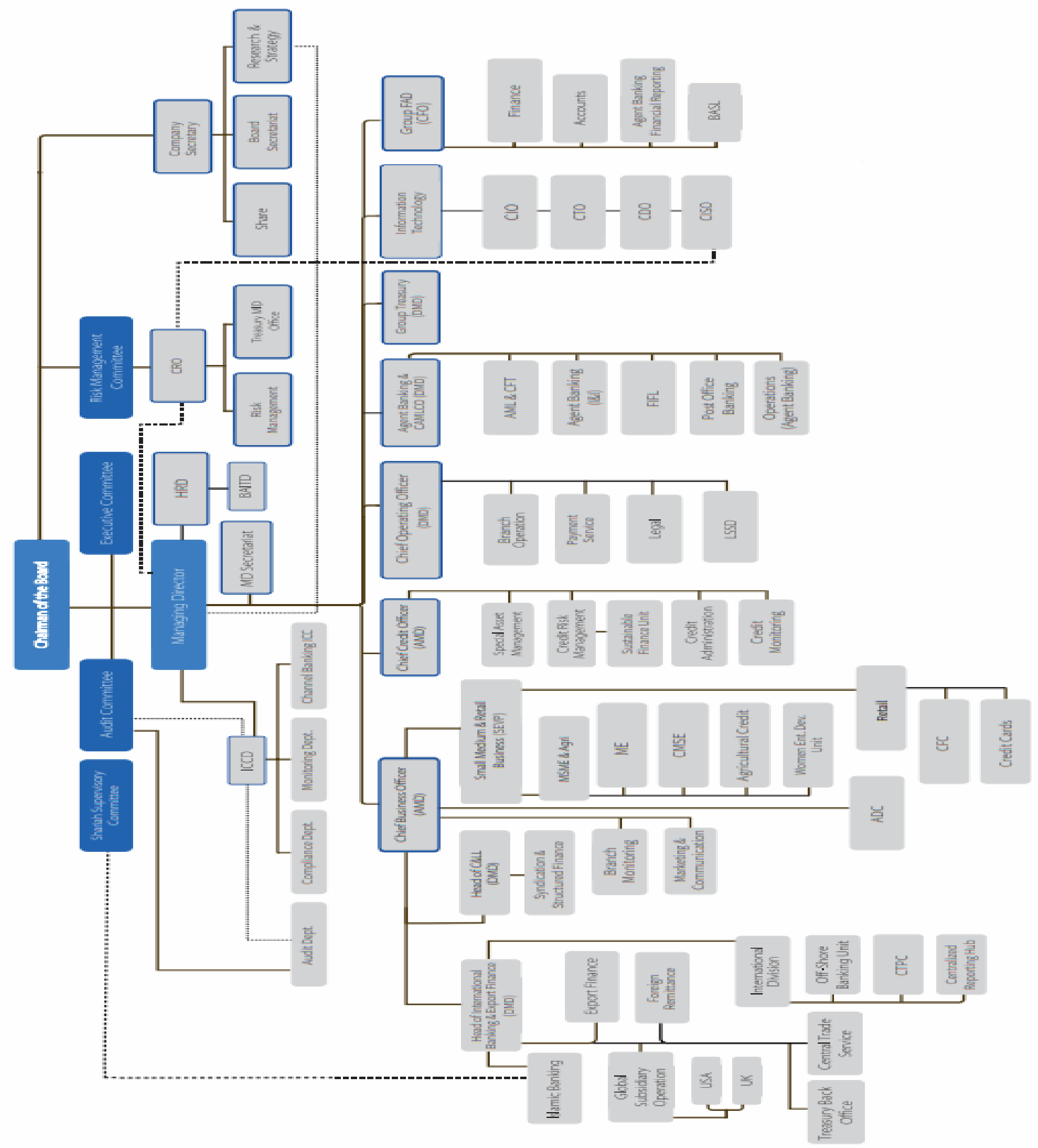

Figure 3: Company Organogram
Source: Bank Asia PLC Annual Reports

2.3.2 Form of Leadership

The working culture at Bank Asia PLC operates under a participative leadership style. With the exception of a few cabins for the senior most executives, the departments are organized in an open-floor plan system. Subordinates and supervisors sit within earshot distance of one another making it easier to delegate tasks and return feedbacks on them. The procedures enable tasks to be completed more efficiently. Recently departments shifted to a monthly meeting models from a weekly one. The previous structure was redundant as senior managers concluded that weekly meetings were proving to be delay task rather than streamline them. Furthermore, seniors and juniors maintain a candid relationship with one another. This helps employees more open to discuss their problems and an overall collaborative workforce.

2.3.3 Recruitment and Selection Process

When vacancies are created for a post, Bank Asia PLC fills those vacancies in two ways, either using internal recruitment or through external recruitment. In case of internal recruitment the announcement is made through internal staff portals, were in qualified candidates are eligible to apply. They face an in-person interview and are chosen on the basis of that interview and their overall contributions in their previous post. Notice for external recruitments can be found on the banks website through their ‘career’ page. Furthermore postings are also made to job websites, university recruitment portals and social media. Selected candidates are to appear for a written exam that tests their English, Mathematical and Analytical knowledge. Candidates clearing that round are called in for one or sometimes two in-person interviews. The process for management trainee applicants are similar except they face two to three more rounds to secure the position.

2.3.4 Training

Bank Asia PLC recognizes the importance of human capital, hence they make sure that they continue to polish the skills of their employees by routinely training them. The organization has established their own training institute Bank Asia Institute of Training and Development (BAITD). The institute is equipped with state of the art equipment, classrooms, libraries and even dormitories for the employees to receive an immersive training experience. The bank also engages its employees in other forms of external trainings. Virtual trainings are also a part of the organizations training process which happens through video-conferencing channels like Zoom. The bank also hosts training workshops in collaboration with Bangladesh Bank for its employees. In 2023, the bank provided 24,822 hours of training to 2,170 employees.

2.3.5 Compensation System

As one of the leading private banks in Bangladesh, Bank Asia PLC’s compensation system for its employees matches its stature. As most reputable organizations, the banks compensation policy includes both financial and non-financial elements. All employees are awarded a base salary. Apart from that all full-time employees are subject to receive a ‘Retirement Fund/Provision Fund’. Over the course of their job at Bank Asia PLC the employee will contribute a part of their salary and Bank Asia PLC is contribute part of the fund annual to establish a retirement fund. Employees are subject to receive a ‘Profit Bonus’ from the bank. Employees also receive festival bonuses, were in the bank provides a bonuses during Eid. These financial incentives accompany non-financial incentives such as annual leave, maternity leave and fringe benefits for officers of certain ranks.

2.3.6 Appraisal Process

Awarding of compensation is based on an employee's performance, which is judged using the bank's appraisal policy. Appraisal of an employee is done once a year by the employee's supervisor or immediate manager. The employee goes through a peer review wherein opinions are collected from colleagues based on their conduct at work. The supervisor appraises the employee based on the quality and speed of their work, ability to implement feedback and overall communication skills.

2.4 Marketing Practices

2.4.1 Target Audience

Bank Asia PLC's services are designed to be availed by a wide range of customers. The organization stated in their mission statement that they want to become the most preferred bank in the country. For their depositors they have deposit plans structured to their withdrawal and income earning goals with saving plan such as 'Double/Triple Benefit Plus', 'Deposit Pension Scheme' etc. They offer savings account for parents to start saving for their children, and for women over the age of 18 who want to control their own fines. They have deposit accounts for travelers who may need to save money for short duration and for various trips. Their savings account 'Nirbhabona', offers senior citizens specialized plan to secure their post-retirement funds. In terms of loan services Bank Asia PLC offers funds for various personal needs and as well as to corporations to fund their large projects. With such services the bank ensures that every customer who visits the bank has their needs met.

2.4.2 Value Proposition

Since their inception in 1999 Bank Asia PLC has grown throughout Bangladesh. As of 2024 they have over 135 branches spread across the country and over 5000 agent outlets to deliver their services. Their wide network ensures that their services are not only limited to the privileges of the big city but to all of Bangladesh, including the rural areas. Committed to modern ideologies of innovation through sustainability the bank has made significant contribution to fund sustainable businesses and itself operates in manner to reduce their own environmental impact.

2.4.3 Advertising Strategies

In the service sector it is important that organizations build strong customer relationship that fosters loyalty. In order to develop this very connection, Bank Asia PLC conducts marketing through various channels. Through email the bank regularly interacts with their existing customers, making them aware of all the latest news and facilities. The bank's top clients receive lucrative gifts during special occasions. In order to market to potential customers, the bank utilizes various outlets such as newspaper, television and social media. The bank runs campaigns to celebrate special occasions like festivals and national holidays by offering lucrative deals to customers.

2.4.4 Brand Collaboration

Bank Asia PLC in order to provide the best value to customers collaborates with prominent brands to give special perks to their customers. The organization has joined hands with the likes of brands such as Mercedes-Benz, Merchantrade Asia, Western Union etc. Apart from these collaborations Bank Asia PLC is affiliated with the top hotels in Bangladesh where its clients can avail significant discount and other lucrative offers.

2.5 Financial Performances and Accounting Practices

2.5.1 Financial Performance

Profitability Ratios

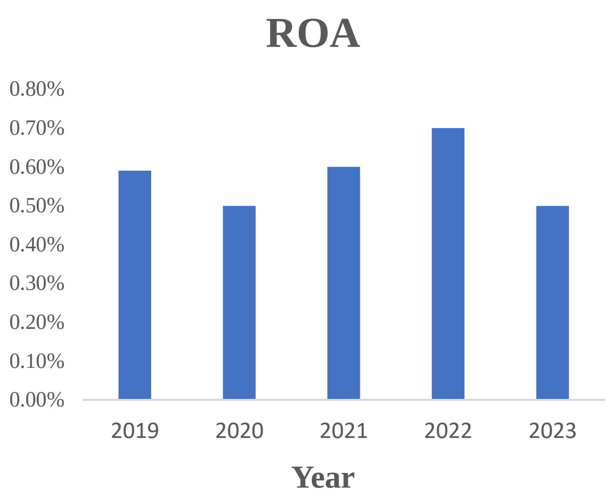

Figure 4: Bank Asia PLC ROA
Source: Bank Asia PLC Annual Reports

Measurement of ROA plays a significant role in bank management as it helps analyze the bank's ability to extract income from its assets. Figure 4 shows that Bank Asia PLC's ROA for the past five years has remain at or over the 0.50% mark. From 2020 to 2022 the ROA had a gradual increase. However, in 2023 ROA experienced a decrease. This is a cause of concern as it shows a decline in the bank's efficiency to manage their assets which has led to the drop. A decreasing ROA can be a sign for alarming causes such as declining loan and asset quality.

ROE is a crucial measurement for a bank's shareholders. It shows the bank's investor if the bank was actually worth their investment or not. Bank Asia PLC's ROE adopted a rising trend from 2020 to 2022, reaching at a 5 year high at 10.90% in 2022. However, in 2023 the ROE disappointed

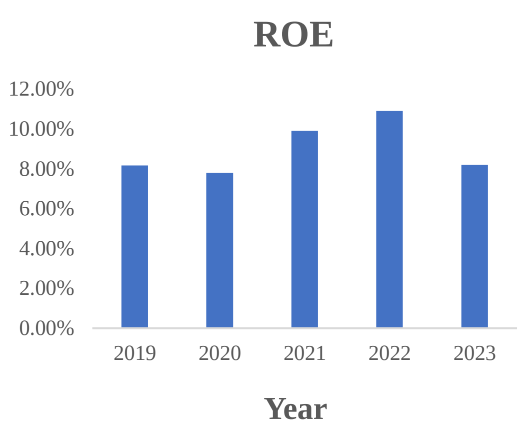

Figure 5: Bank Asia PLC ROE
Source: Bank Asia PLC Annual Reports

shareholders by dropping more than 2%. This decline indicates that the bank management were not able to efficiently utilize its resources to generate value for investors.

Liquidity Ratio

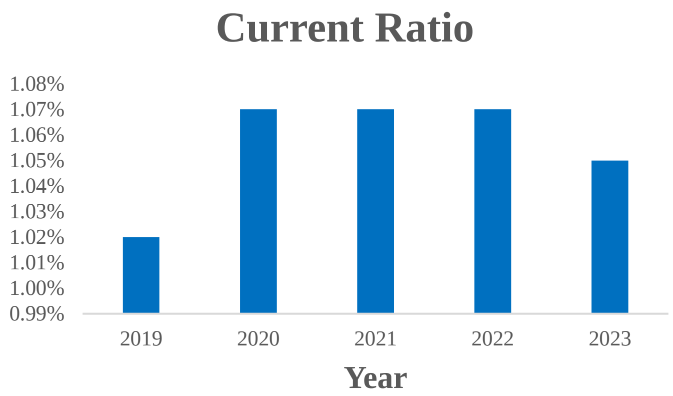

Figure 6: Bank Asia PLC Current Ratio
Source: Bank Asia Annual Reports

Bank Asia PLC's current ratio was higher and more stable from 2020 to 2022 compared to 2019. Considering 2020 and the subsequent 2 years were the pandemic and post pandemic phases were most organizations struggled to maintain liquidity the performance is commendable. However, the appreciation is not the one to last as during 2023 the bank's current ratio dropped. In an environment were bank failures due to liquidity crisis is common this decline is alarming for the health of the bank and warning for stakeholders.

Bank Asia PLC's LCR% is on favorable side. Ideal LCR% for banks is recommended to be above 100%. As per 2023 figures, Bank Asia PLC's LCR% is almost 200%. This translates that the bank has enough liquid assets that they can use to cover their short-term liabilities within the 30-day period. With such positive LCR% figures the bank is sure to be looked upon favorably by regulators and stakeholders.

Figure 7: Bank Asia PLC LCR%
Source: Bank Asia PLC Annual Reports

Other Performance Ratios

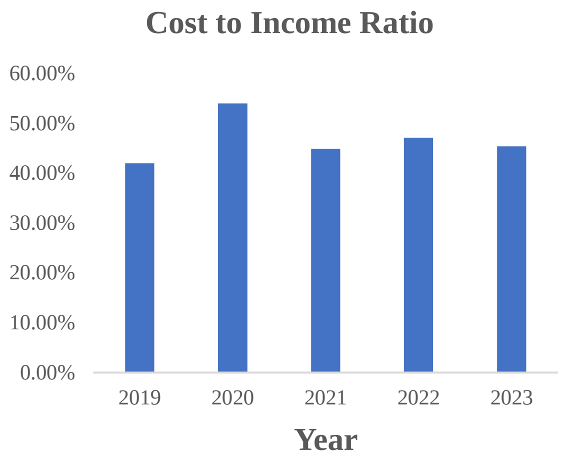

Figure 8: Bank Asia PLC Cost to Income Ratio
Source: Bank Asia PLC Annual Reports

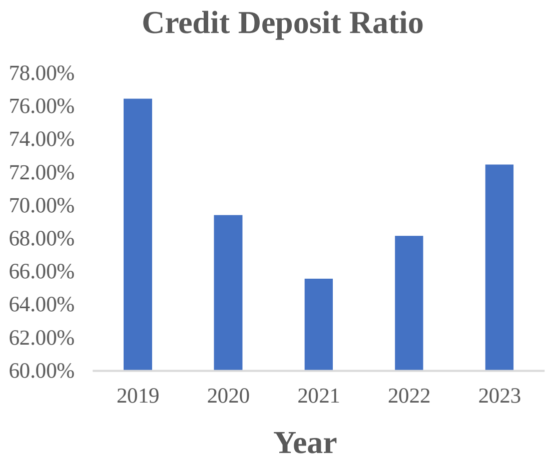

Figure 9: Bank Asia PLC Credit Deposit Ratio
Source: Bank Asia PLC Annual Reports

Bank Asia PLC's cost to income ratio hit a five year high during 2020, presumably due to the pandemic. However, the bank was able to turn things around by curbing cost the following years. A bank's credit to deposit ratio indicates what portion of the bank's deposits have been disbursed as loans. The bank's credit to deposit ratio dropped significantly during 2020 to 2022 compared to 2019. This may have been done as a result of the pandemic, a time when the bank needed to conserve liquidity. In 2023, the ratio has risen to accommodate the growing economy as the world heals from the pandemic and take chances to generate higher interest income.

<u>Peer Comparison</u>

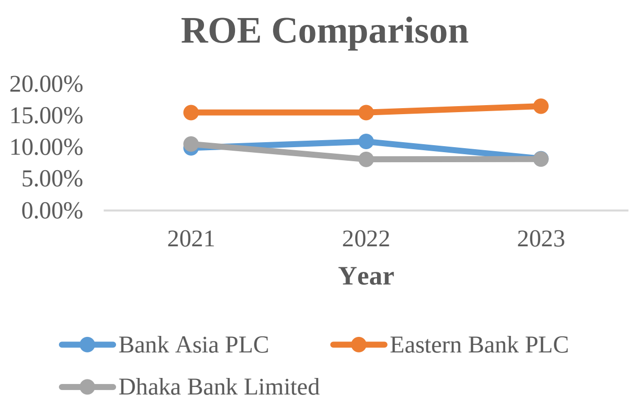

Figure 10: ROE Comparison

Bank Asia PLC's ROE when compared to peers is comparatively underperforming. Whereas both Eastern Bank PLC and Dhaka Bank Ltd have their ROE on a rising trajectory Bank Asia has their ROE declining.

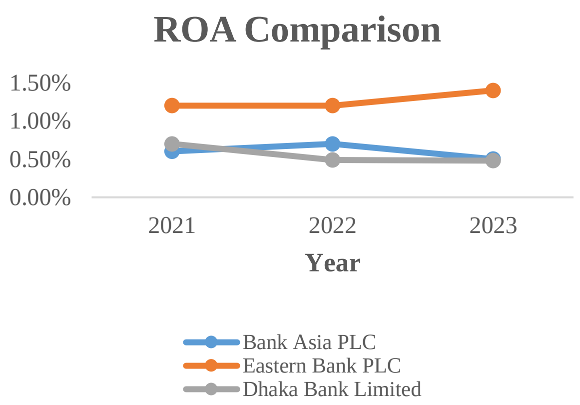

Figure 11: ROA Comparison

Similar to the ROA Bank Asia PLC's ROA is also underperforming compared to peers. With both Eastern Bank PLC and Dhaka Bank Ltd seeing a improvement with Bank Asia PLC's figures on a decline.

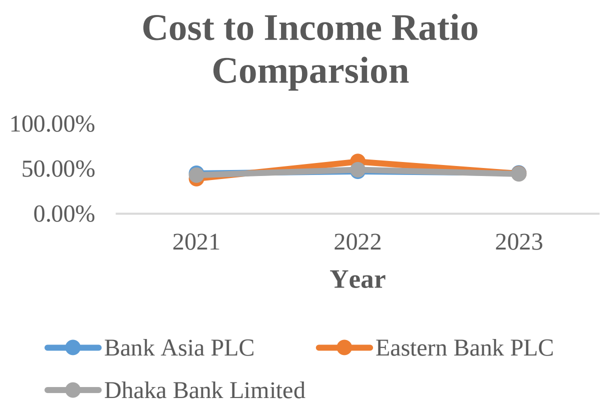

Figure 12: Cost to Income Ratio Comparison

Bank Asia PLC was wining in terms of cost management during 2021 and 2022. However, by 2023 not only did Eastern Bank PLC and Dhaka Bank Ltd, catch up to them but also have a lower cost to income ratio than Bank Asia PLC.

Stock Market Performance

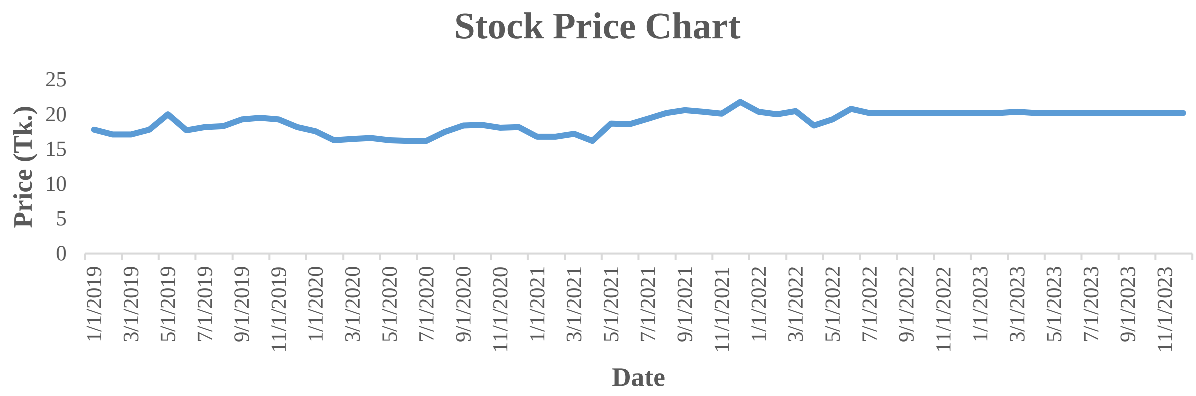

Figure 13: Bank Asia PLC Stock Price
Source: Investing.com

Bank Asia PLC's stock market performance has been more or less steady. Although trading at 20 tk and lower, the stock is not considered of much value, however, the bank has managed to hold a steady price. Starting in 2020 there is an obvious dip courtesy of the pandemic. However, post pandemic the stock price has remained consistent. This shows it as a reliable stock.

However, on the other hand the bank's EPS is not promising. When investors around the globe were suffering during the pandemic, Bank Asia PLC's EPS was on an increasing trajectory. That was until in 2023 when the EPS declined compared to figures of 2021 and 2022. This decline after a success during the global downturn will not look good in the eyes of investors who would take this as a sign of the bank's inefficiencies in managing their resources to generate profit in a robust economy.

EPS	
2019	1.68
2020	1.74
2021	2.34
2022	2.62
2023	1.79

Table 5: Bank Asia PLC EPS
Source: Bank Asia PLC Annual Reports

2.5.2 Accounting Practices

Bank Asia PLC is committed to implementing fair accounting practices to reflect its integrity to stakeholders. The bank has a compliance department that ensures that all financial reports are generated as per standards. The bank uses International Financial Reporting Standards (IFRS) and International Accounting Standard (IAS) guidelines to report its financials. Apart from that the bank also adheres to a number of guidelines such Bangladesh Bank, SAFA and ICAB reporting structure. The bank uses MBAS & J partners as their auditors to audit their financial statement, gratuity fund and provident fund.

2.6 Operations and Management Systems

Bank Asia PLC Operations Management Systems	
Oracle Exadata Solution	Organizes core database, server, storage and network environment in a single platform
Cyber Security Management	Certified cyber security maintaining ISO 27001-2(ISMS), PCI DSS V4.0, ISO 22301 (BCMS) standards.
Nikash Ghar	Bank Asia PLC is integrated with Nikash system developed by Bangladesh Bank clearing house to streamline payment process
Document Management Solution (DMS)	As a part of green banking initiative Bank Asia PLC aims to go completely paperless. DMS allows the digitization and easier accessibility of documents
Anti-Money Laundering (AML) system	AML system designed to monitor risk, fraud and transaction activities
Islamic Centralized Trade Services System Platform (CTSU)	Islamic CSTU used to streamline Islamic Banking operations.
Bank Asia SmartApp	Online Banking platform developed by Bank Asia PLC for customers to avail e-banking services.
PeopleHub	Human Resource Information System (HRIS) by Bank Asia PLC to monitor and ensure efficiency for HR activities

Table 6: Bank Asia PLC Operations and Management Systems
Source: Bank Asia PLC Annual Report

2.7 Industry Analysis

2.7.1 SWOT Analysis

Strength

- Bank Asia PLC is one of the top private banks in Bangladesh. According to Bangladesh Bank has included Bank Asia PLC in their list of the top eight strongest banks in the country in terms of financial stability (New Age, 2024). This gives the organization a strong brand value.
- Bank Asia PLC also has a strong position in terms of its Capital to Risk-Weighted Assets (CRAR) ratio. The bank currently has a CRAR of 16.45% which is significantly higher than the BASEL III requirement of 12.50%. The average CRAR of banks in Bangladesh is considered to be the lowest in South Asia at 11% (Prothom Alo, 2023). Hence Bank Asia PLC has a strong capital base to sustain its operations and ensure customers as well as regulators about being reliable.
- Bank Asia PLC is strongly committed towards Sustainable Development Goals (SDGs). The Bank has showed its support through its continuous investments and support towards sustainable businesses. Their initiatives have been noticed by notable organizations as the bank has been awarded 2023 NCSR (National Centre for Sustainability Reporting) and ICSP (Institute of Certified Sustainability Practitioners) 'Silver Rank' in Asia Sustainability Reporting Rating (ASRRAT) for Sustainability Report. The bank is a strong partner for supporting a business's sustainable projects.
- Bank Asia PLC is ISO 27001-2(ISMS), PCI DSS V4.0, ISO 22301 (BCMS) certified for cyber security protections. Cyber security is a huge concern for customers of a bank. Having such certifications solidifies the bank's reliability for its customers.

Weakness

- Bank Asia PLC is not able to retain competent employees. Promising employees are leaving to work for rival banks who are offering them with better compensation packages and opportunities for career growth. This is a reflection of the bank's poor HR policy that is resulting in such high turnover rates.

Threats

- Bangladesh is in a state of political turmoil and the changes in government has impacted the country's economy negatively. International organizations are now considering revising down the country's growth projections. This sudden change will impact Bank Asia PLC's long term strategic planning.
- Bangladesh was facing a dollar crisis before the change in government and the recent turmoil has resulted in the situation to get worse. As a result, taka is rapidly depreciating against the dollar. Bank Asia PLC will experience significant rise in risk while the government tries to find a solution to this burning problem.
- Consumers have become more inclined towards digital banking services. Emergence of Neo-banking in the western will at one point influence banking practices in Bangladesh. Neobanks do not have a physical presence and operate purely through digital mediums, hence are able to significantly lower their operating costs and as a result offer better deals to customers. Such banking models will disrupt the market and if successful, will easily overtake traditional banks like Bank Asia PLC.

Opportunities

- Social Media is a great tool for marketing, not just to customers but also for potential employees. Modern fintech companies and MNCs in Bangladesh have their own career page which they use to showcase their work culture to attract competent employees. Banks in Bangladesh are yet to adopt this trend. Bank Asia PLC can improve their employer branding by utilizing social media and break this norm for banks and build a good reputation as an employer.

- The new interim government of Bangladesh is working towards recovering large loan defaults and bringing the defaulters into trial. Even in this economic turmoil, the silver lining is that Bank Asia PLC may be able to recover their loan defaults through this process. If not, then the scrutiny from the government will result in lower future defaults as corporations will be more cautious and be more accountable for their financial obligations.
- The dollar crisis will lead to increased foreign liabilities for Bank Asia PLC. However, it will also lead to increased income from remittance. Bank Asia PLC can work on acquiring more customers for remittance services to boost their growth.
- The dollar crisis will also lead financial struggles for export and import based businesses. Bank Asia PLC can develop specific loan products to cater to these business and benefit from this situation.
- Most of the banks in Bangladesh have aligned their services with fintech platforms like bkash and Nagod. Bank Asia PLC can form partnership with these popular digital wallets to offer their services to customers such as loan repayments, credit card bill payment etc.

2.7.2 Porter's Five Forces

Threat of New Entrants (Low)

The banking sector in Bangladesh is highly competitive. However, it is difficult to open a bank in Bangladesh due to the high entry barriers. Opening a bank requires a substantial amount of initial capital, Tk 500 crore, as well the ability to act upon the several guidelines such as capital adequacy and anti-money laundering, imposed by Bangladesh Bank.

Bargaining power of Suppliers (Low)

In the Banking industry both depositors and other investors have little influence on this matter as both are subject to the regulations imposed by the central bank.

Bargaining power of Customers (Moderate)

The banking sector in Bangladesh is cluttered with banks with the top banks always in fierce competition to maintain their position, hence customers will always have the option to shift to banks that are offering them better service. On the other hand, the bulk of a bank's income comes from large loans given to corporations. These clients are acquired through industry connections made using prominent board members who facilitate such deals. Hence it is important that banks have influential people on their board to help them acquire profitable clients.

Threat of Substitutes (Moderate to high)

Digital banking has become popular in Bangladesh. However, many digital wallets such as Bkash and Nagad in Bangladesh have partnered up with banks to streamline their service. Hence, by association banks are now an equal partner in this change.

Industry Rivalry (High)

The banking sector in Bangladesh is crowded. Bank Asia PLC is currently on of the top 10 privately owned banks in Bangladesh. However, their position is up for contest by other aspirants in the banking sector.

2.7.3 PESTLE Analysis

- The political situation in Bangladesh is extremely volatile at this moment. In the recent July 2024 uprising the ruling party was forced to step down and now the country is being run by an interim government who are still trying to undo the damage done in the past. This has led to vacancies in many important regulatory bodies as people with connection to the previous government had to step down on corruption charges. As the country is going through these changes it is uncertain on how far the country will be able to keep up on their goals and impact volatile sectors like the banking industry
- The economy post pandemic inflation has been rampant in Bangladesh. This has led to many industries struggling to cope with the change. Interest rates were increased by the government to control the situation. This has led to development of bad loans as well as loss of potential income for banks due to rising cost of funds.
- In order to boost the social conditions and prospects of women the government has launched several schemes under which women are able to easily establish their businesses. This has resulted in women’s need for loans with Banks like Bank Asia developing loans and deposit schemes specifically designed for women
- The emergence of digital banking in Bangladesh and improved internet availability has led banks to be present in the most rural of areas in the country. There is a lack of necessity for physical stations for banks to serve potential customers. This technological change has expanded their customer base and made it easier for them to operate.
- Bangladesh is at the forefront of victims of Climate change. Many organizations around Bangladesh are trying to adopt sustainable environmental practices to help the country with the SDG goals. Bank Asia PLC implements sustainability practices in its daily

operations and also allocates significant amount of funds as investment in sustainable initiatives.

- Banks are the pillar of the financial system of Bangladesh and hence are subject to strict laws. It is particularly difficult for new banks to enter into the sector due to such strict laws of capital adequacy, anti-money laundering, risk compliance etc. It is important that Bank Asia PLC follow these regulations for the smooth operation of the organization.

2.8 Summary and Conclusion

Bank Asia PLC has been in the banking industry for 25 years and have been through the ups and downs of Bangladesh's economy. With new opportunities came more competitions. However, Bank Asia PLC strived through and made a name for themselves in the banking sector as a top private bank. To stay competitive in the future the bank needs to optimize their digital presence and target prospective sectors such as sustainable finance and SME financing.

Chapter 3: The Role of Economic Factors in Influencing Treasury Risk Management of Bank Asia PLC

3.1 Introduction

3.1.1 Background

Economic indicators play a major role in guiding business organizations around to globe to design successful strategies that can absorb most of the impact of any present or future economic events. The banking sector acts as a supporting beam, a medium for other industries to channel their operations. The importance of the sector's support makes it very sensitive to changes in the economy. For instance, in an event of potential economic downturn it is important that banks manage their liquidity as they can expect an increase in volume for withdrawals. An economic downturn also means an increase in credit risk and hence banks would need to prepare for potential loan defaults and high demand for loans. Hence it is important that whatever the economic condition is, banks are prepared to stand strong and provide assistance to their clientele.

Treasury department of a bank mainly concerns itself with the management of money market securities and foreign currency transactions. Money market operations for the treasury department include the borrowing and lending of funds that have a maturity period of maximum one year. Whereas, foreign currency transaction refers to the department's task of buying and selling of various currency. The Treasury department is also responsible for maintaining the bank's SLR (Statutory Liquid Ratio) and NSFR (Net Stable Funding Ratio) as per the directives from the Central Bank.

Bank failures have become frequent occurrence in recent years. A single bank failing is considered one too many, given the chain reaction it triggers with its fall. As a result, it is important that banks are held within some liquidity standard that prevents them from accepting access risk and avoiding a potential liquidity crisis. The SLR insists that banks keep a certain portion of their net demand and time liabilities in government securities, which are highly liquid assets. NSFR guidelines evaluate a bank on the basis of whether or not it has stable long-term funds to fund its long-term assets. Banks are also regulated on the basis of their LCR (Liquidity Coverage Ratio), which instructs banks to hold a sizeable portion of highly liquid assets that are ready to meet any liquidity stress situation within the immediate 30 day period. The treasury department of the bank is responsible in assisting the bank into maintaining such guidelines. In addition to these liquidity guidelines the department also overlooks the buying and selling of foreign currencies and managing the associated risks.

The Treasury Department at Bank Asia PLC is responsible for anticipating the risks within the bank and the economy and device strategies to efficiently manage the bank's liquidity and ensure the solvency of the organization. In order to do so, the department needs to adhere to standard guidelines and anticipate potential risks. The following internship report will analyze influence of economic indicators in directing the course of risk management strategies at Bank Asia PLC.

3.1.2 Objective

The objective of chapter three of this report is to explore the main focus of this report, which is, the impact of economic indicators on Bank Asia PLC's treasury risk management. The following analysis explores the different avenues of economic indicators and correlates their behavior with that of Bank Asia PLC's treasury related activities. The study looks into the various outcomes of Bank Asia's treasury related activities over the past five years (2019-2023). The outcomes include analysis of investment and income from government securities, exchange gain, sectoral distribution of credit, risk-weighted assets and NPL percentage. The outcomes are correlated with each other and also key economic indicators such as GDP growth rate, unemployment rate, inflation, interest rate and balance of payment of Bangladesh and also global economic outlook to establish a relationship with risk management practices of Bank Asia PLC.

3.1.3 Significance of the study

Bank Asia has been ranking as one of leading banks in Bangladesh. With tough competition always for the top spots it is essential they enhance their strategies to maximize profitability. Profitability can only be safely maximized when risks are effectively balanced. This can be done so by analyzing different avenues that influence risk. The report's analysis of several economic factors acting as indicators of potential change will give an overview of the signals that banks, especially Bank Asia PLC can catch onto to design future treasury risk management strategies and find the gaps in the previous actions undertaken.

3.1.4 Scope of the Study

With a fragile financial sector, banks in Bangladesh need to be wary of their strategic approach. Taking queue from global banking failures in the past year, it is important Bank Asia PLC understand the gravity of the situation. The analysis begins by categorizing the three main types of economic indicators. The crucial indicators are then connected with the Treasury department outcomes of the past 5 years to produce a connection with the results.

The internship at Bank Asia PLC was for a duration of only 3 months. Hence, it wasn't possible to accumulate a more complete understanding of the mindset behind the decisions and implications of those said decisions, of the treasury department. An employee having worked in full capacity and for a duration of more than a year would have given better insights on the mechanics behind the operation of the department. Furthermore, as an intern there were restrictions to data accessibility. Sensitive data is not shared with interns. The absence of those data has generated gaps in the report.

However, despite the time and information restrictions, a complete effort was given to generate a comprehensive report.

3.2 Literature Review

The impact of globalization have led countries, to develop higher dependencies on one another for positive performance. This interconnection has led to the development of several theories and models explaining this complex global relationship. It can be deduced from all these assumptions that no event takes place without notice and that they leave signs and indicators for experts to pick up and predict their arrival. In aggregation these statistics claim the presence over thousands of economic indicators (Yamarone, 2012). Amongst these thousands, only a handful of fifty indicators are assumed as having legitimate influence in predicting realistic patterns (Yamarone, 2012).

The most important and widely used economic indicator is GDP growth. Positive GDP growth indicates optimism for the future and vice versa. In his 1913, publication on business cycles, Wesley C. Mitchell divided the economic cycle into four phases, expansion, peak, contraction and trough (Kydland & Prescott, 1990). The theory explained that how businesses adjusted their operations based on the cycle. Banks are no different. They also design their strategies in anticipation of the upcoming business cycle. It is important that bank's adjust their risk according to the economic cycle so that at times of contraction and trough they have enough liquid assets at hand to offset the loss during that period.

Inflation rate is another economic indicator. Rising inflation rate often reduces the value of investments. According to the Fisher Effect, real interest rate is impacted as inflation rate rises.

Hence, until and unless nominal interest rates rise at the same pace of inflation rates, then real returns on investments will be negatively impacted. Interest rates rise as inflation rises, this lowers the value of existing bonds. During spikes in inflation rates, it will be wise to lower stakes on fixed interest bonds to mitigate potential losses (Basu & Jain, 2024). In context of Bangladesh, where inflation is constantly increasing, treasury risk managers need to be wary on where to place their bets. As failure to understand the trend in inflation rates may lead to the bank losing on investments.

Furthermore, treasury risk managers can also use unemployment rates as a guide to map out the future of the economy. High unemployment rate is interpreted as poor economic condition. This condition is established in the Okun's Law, which states that unemployment rates indicate economic condition and the degree of risk present in the risk (Lee, 2000). Studies have indicated that, demand for high yield bond increases during periods of high unemployment rates (Kiss, et.al, 2022). This is because of anticipation of higher risks and investors want bond to provide higher returns to offset that risk.

It is important that treasury risk managers learn to interpret such indicators and draw patterns to adjust their risk and deploy strategies that efficiently generate gains for the bank.

3.3 Methodology

The following section in the report centers on the Treasury risk management practices at Bank Asia PLC. However, treasury risk management encompasses a wide range of topics that include both external and internal aspects of the company. The following report will not touch every potential avenue but would rather focus on the presence of economic indicators as tools in treasury risk management.

The section has primarily used secondary data collected from 26 sources. These 26 sources include, news paper articles, finance blogs, journals, statistic databases, company websites and company annual reports. The section is developed based on quantitave analysis, by making comparative analysis of Bank Asia PLC's outputs on risk-weighted assets, capital adequacy ratio, cost of fund, net interest margin, foreign exchange gain, and asset liability management duration with various economic factors such as GDP, interest and inflation rate, and foreign exchange rate of Bangladesh. Most of the values for the figures were already available except for Bank Asia PLC's net interest margin and quarterly foreign exchange gain values, which were calculated. All data accounted for have been considered based on the available recent 5 years (2019-2023).

3.4 Findings and Analysis

3.4.1 Defining Economic Indicators

Economic indicators are variables whose behavior define or set the trend of events in an economy. It provides a roadmap for investors to plan their investments to optimize opportunities and minimize risk. Economic indicators can be categorized into three types.

Leading Indicators

Leading indicators are those variables whose present behavior is expected to act as a harbinger for the economy's future performance. Share market performance and manufacturing orders are examples of leading indicators. Positive growth of these factors reflect that the economy is moving in a positive direction. The interpretation of leading indicators depends on the ability to deduce past patterns and make correlation with the present trend (Frumkin, 2015). If used correctly, leading indicators can accurately predict long-term projections for the future.

Coincident Indicators

Coincident indicators are used for their present condition to explain the present trends in the economy. Gross Domestic Product (GDP) rates and employment rates are examples of coincident indicators. To put it into more accurate terms, these indicators are used for their most recent data to generate reports, as it takes time to collect and analyze the data (Kenton, 2022). Each coincident indicators have different lag times, which is the time needed to analyze the data (Kenton, 2022). However, due to the data being the closest possible to present, their behavior can be used to explain the economy's business cycle (Kenton, 2022).

Lagging Indicators

Lagging indicators, as the name suggests confirms patterns after they have taken place. Unlike lagging indicators they aren't capable of predicting events but rather establish the event after they have happened (Charles, 2023). Unemployment rate and GDP growth rates are examples of lagging indicators. They are often used as a compliment to lagging indicators. Lagging indicators long term predictions can often produce inaccurate results in volatile conditions and sudden short-term shocks (Charles, 2023). Using lagging indicators alongside can provide a better picture as their indication of confirmed changes can be used to establish correlation with the leading indicators results and develop more accurate results (Charles, 2023).

3.4.2 Importance of Economic Indicators

With rising business opportunities come rising business challenges. Industrial revolutions over the years have opened new avenues for businesses to increase their trade. This meant lowering barriers to entry for businesses in various industry, as a result increasing competition. In this increased competition scenario, the key to survival is by harnessing the right opportunities and the same time effectively balancing the associated risks.

Placing, business strategies by analyzing risk will help organizations optimize profit levels and reduce losses. Having the knowledge of the mechanics of the economic indicators can be great tool for risk management**.** In particular context of the organizations operating in the financial sector, economic indicators play a crucial role in diagnosing market risks such interest rate and credit risk. Bangladesh has been battling high inflation rates for the past few years. In the past month this rate has reached ridiculous heights. Food inflation has hit to the 14% rate and Bangladesh Bank has decided to raise the interest rate to 9% from the previous 8.5% (The Daily Star, 2024). Rising inflation rates are a harbinger for a potential increase in interest rates. Hence, by keeping a notice on probable changes in commodity prices, managers can predict their cost on present and future projects by estimating their cost of capital. The banking sector in particular experiences these changes through impacts on their lending income and asset-liability management. The end of 2023, the banking sector in Bangladesh totaled a mammoth 4.75 lakh crore in distressed loans, which account for 32% of all outstanding loans in the sector (Byron & Jahid, 2024). Rising inflation rates result as rising costs of doing business. Survival becomes difficult for both individuals and organizations. Grappling with keeping their heads above the water, debtors struggle to pay their loans, creating a potential scenario for increased credit risk.

The 2008 financial crisis was brutal for the world. Originating in the USA, the country saw its large banks collapse in the crisis. The country’s failure to regulate the sector became a lesson for world. Despite taking measures and implying strict guidelines for bank regulation the USA banking sector experienced another crisis with bank failures in 2023, when three of its prominent banks, Silicon Valley Bank, First Republic Bank and Signature Bank failed (Kleinman, 2023). The failure came as the banks were unsuccessful in anticipating the impact rising interest rates and post-pandemic conditions will have on their liquidity (Kleinman, 2023). An understanding of how different economic indicators is key to liquidity management, which is the life-blood of banking operations.

Managing risks properly means having a leg up on competitors. With information becoming more accessible, it is the ability to analyze them properly, is what makes the difference. Using the indicators is crucial to designing strategic plans. However, it is important to use them properly, and using multiple models instead of depending on one.

3.4.3 GDP Outlook and Impact

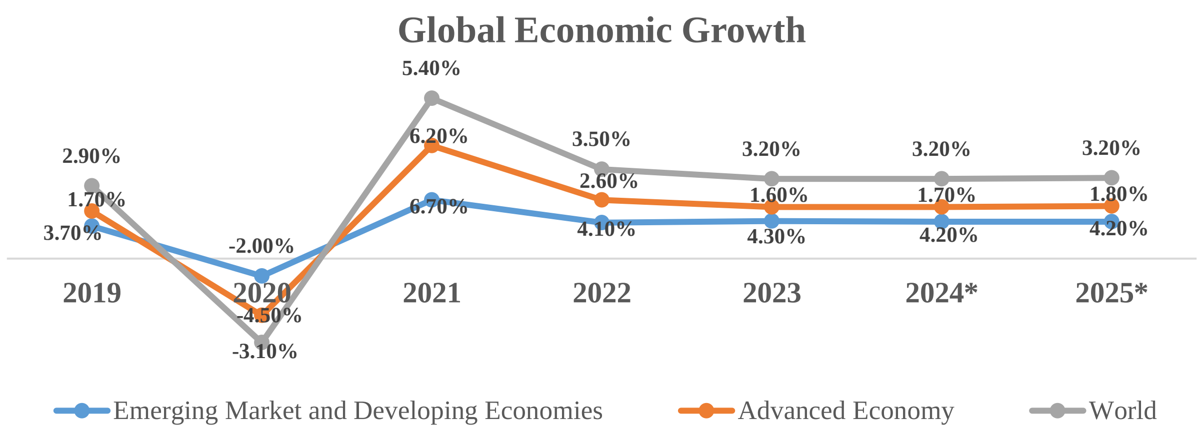

Figure 14: Global GDP Outlook
Source: Bank Asia PLC Annual Reports & Bangladesh Bank

Over the past five years the world economy has been hit by a series of tragedies. All efforts to establishing an optimistic future were destroyed with the emergence of COVID-19. The world economy was flourishing on a steady rate during 2019, with expected projections of the year 2020 to be on the positive end. According to "World Economic Outlook" published by the IMF in January of 2020 to have a projected GDP growth of, 1.6% for advanced economies, 4.40% for emerging and developing markets and an overall of 3.30% for the world. However, as the chart shows, the projections were far from reality. As the chart above establishes, GDP growth rates took a sharp dip following the emergence of the pandemic in 2020, with values going into negatives. By late 2020, the development of the Covid-19 vaccine began with an expected launch to happen during early 2021 (Gallagher, 2020). The vaccine launch maintained its timeline and the GDP growth rates around the world took a steep rise. The recovery was short lived as the unrest taking place in Middle East and Ukraine-Russia, forced the growth to again take a back seat with growth projections dropping by almost 3% compared to 2021.

GDP growth projections play a huge role for organizations to manage their risk expectations and design strategies. In case of banks, one of the way the projection impacts is their composition of risk weighted assets and capital adequacy ratio.

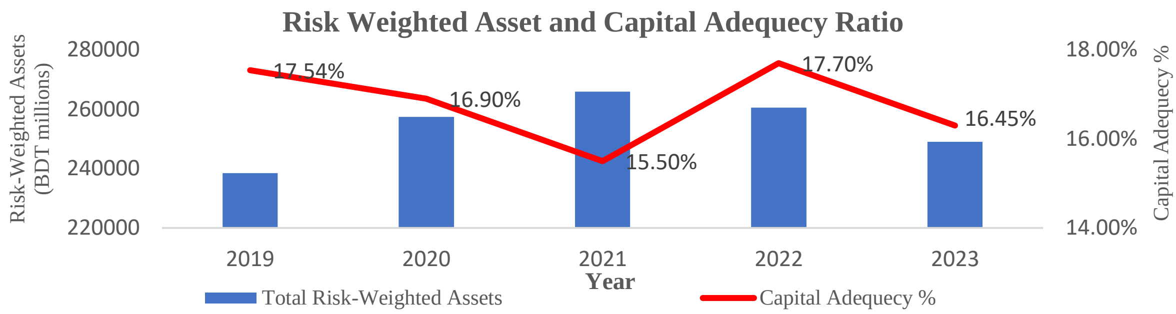

Figure 15: Bank Asia Risk Weighted Assets and Capital Adequacy Ratio
Source: Bank Asia PLC Annual Reports

The graph shows the values movement of Capital Adequacy Ratio (CAR) in relation to their Risk-Weighted Assets (RWA). A bank's RAW refers to the valuation of each of the bank's assets against an assigned risk weight. Whereas the capital adequacy ratio is the measurement of a bank's total capital against its total RWA.

Bank Asia PLC's RWA increased substantially during 2020 compared to 2019 figures. The figures continued to increase during 2021 as well. This rise perfectly correlates with the Covid-19 impact on GDP. The negative figures during 2020, expresses crisis for economies around the world. Businesses were struggling to survive and as a direct consequence finding it difficult to pay their dues. This consequently forced Bank Asia PLC to adjust their risk profile as markets became more volatile and rise in credit risk became more apparent. It can be seen that there was an increase in assets as well during this period, however the growth in assets do not

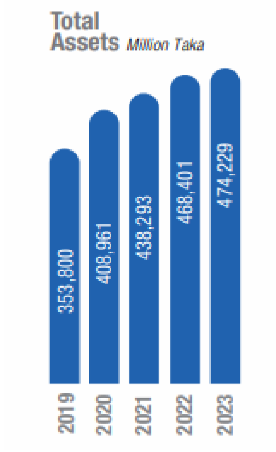

Figure 16: Total Assets (solo)

Source: Bank Asia PLC Annual Reports

exactly correlate with the rise and fall of RWAs. For instance, before the declaration of the pandemic, GDP projections were favorable and hence the bank increased their investments in risky assets. That coupled with the unfortunate disease outbreak, the bank had to implement higher risk weights to its assets increasing the value of RWAs. The bank's assets in 2021 increased at a slower pace compared to 2020. However, RWAs rose significantly. This can be attributed to the fact that many business undertook loans to survive during 2020 and despite positive projections for GDP growth, they would need time to recover and and generate income. This prompted the bank to assign higher risk weights. 2022 and 2023 were different. The bank's assets kept on increasing but their RWAs decreased. Organizations like World Bank, IMF posted slowing growth rates in their yearly reviews, this prompted the bank to lean towards less risky investments, allowing their RWAs burden to relax.

On the other hand analyzing the bank's CAR% to the movement of its RWAs show both variables to have an inverse relationship. As RWAs increase, CAR% decrease. A higher CAR% is looked upon favorably. CAR is essentially a bank's total capital divided by total RWAs. Therefore, a higher ratio indicates that the bank has substantial capital to back its risk-weighted assets that carry a possibility of leading to losses. During 2022, Bank Asia PLC had a CAR% of 17.70%, higher than pre-pandemic levels. In 2023, the ratio dropped to 16.45%. However, the drop is not of concern. Firstly because according to BASEL III mandated the standard CAR% for banks to be at 12.30%. Hence, Bank Asia PLC's CAR levels are at a comfortable position. Secondly, too high of a CAR%, is not considered good as it show inefficiency of the bank. A CAR% higher than adequate is a sign that the bank is not making proper use of its resources and is not taking enough chances on opportunities limiting profit potential). IMF projections in April 2024 indicated that GDP growth will fall to 5.7% in 2024 from the 6.0% in 2023, but it will experience a steep rise to 6.6% in 2025 (Bangladesh Bank, 2024). However, the recent turmoil in Bangladesh politics made IMF backtrack on their optimism. Revised projections put Bangladesh having a 4.5% GDP growth instead of the earlier projection of 6.6% (International Monetary Fund, 2024).

3.4.4 Inflation and Interest Rates

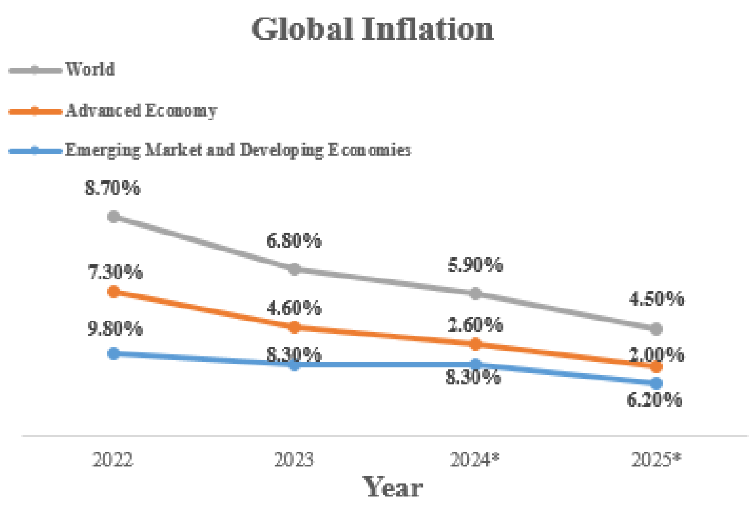

Figure 17: Global Inflation
Source: Bangladesh Bank

According to IMF's World Economic Outlook, economies around the world are experiencing deflation. Post pandemic, there was rampant rise of inflation around the globe. In order to control the situation central banks around the world imposed regulatory changes by tightening their monetary policies (Bangladesh Bank, 2024). The graph shows the strong impact of the initiative as inflation has dropped several points compared to the 2022 levels and is projected to fall further in 2024 and 2025. Although the global projections indicated relief from inflation, Bangladesh had a different situation.

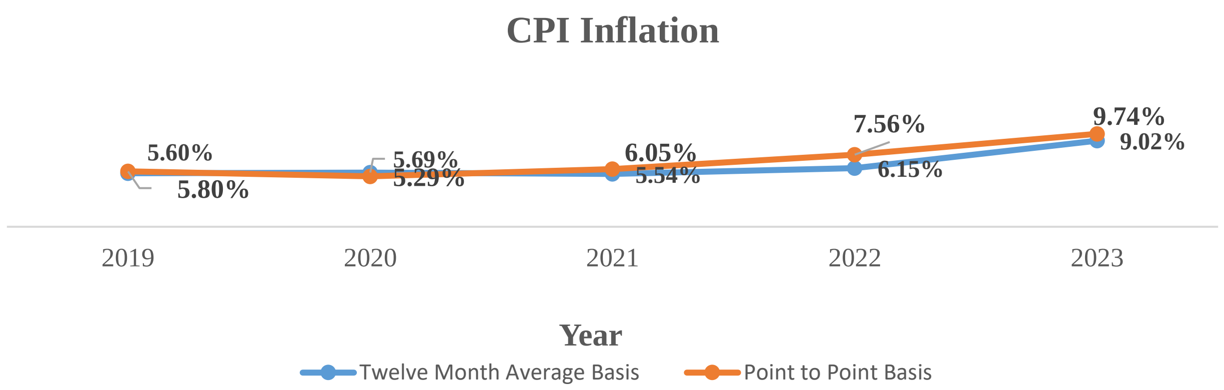

Figure 18: Inflation Rate
Source: Bank Asia PLC Annual reports

Whereas the world was moving towards deflation, Bangladesh was moving in the opposite direction, towards rising inflation. Latest inflation figures published by Bangladesh Bureau of statistics stood at 9.72% in June of 2024 (Mahmood, 2024). Rising inflation is nowhere slowing down, with the high figures putting upward pressure on costs of production further increasing inflation (Mahmood, 2024). The country still has not been able to match pre-pandemic productivity levels, with organizations both small and big still carrying the burns of the Covid Era. This rising inflation is another wound that is refusing to heal and aggravating the situation by making it difficult for businesses to manage their costs and maximize sales. One way central banks curb inflation is through interest rates.

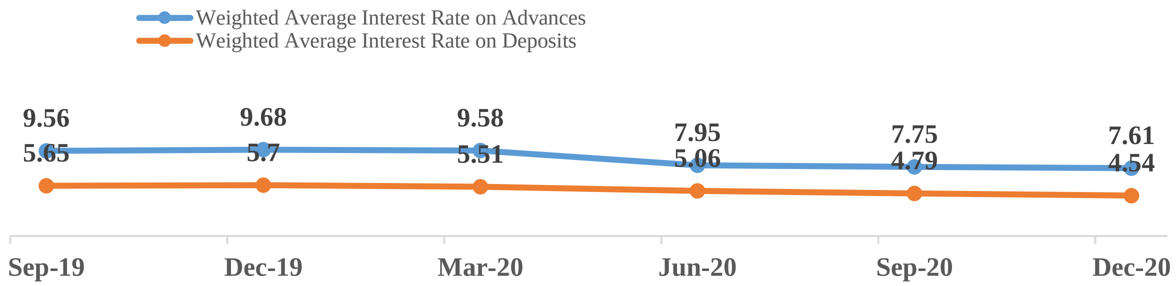

Figure 19: Interest Rates (2019-2020)

Source: Bank Asia PLC Annual Reports

During fiscal year 2019-2020, Bangladesh Bank periodically lowered the interest rates to narrow the gap between lending and deposit rates. This would allow banks to more effectively lend and enhance their earning possibility and liquidity management.

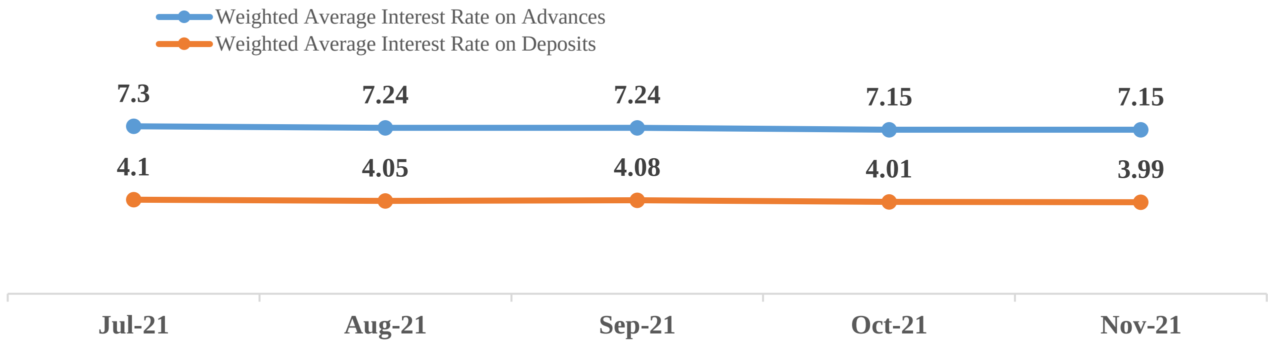

Figure 20: Interest Rates (2021)

Source: Bank Asia PLC Annual Reports

During the fiscal year 2021, the changes brought into interest rates remained stable. However, there was a sharper change in lending rates compared to deposit rates. This period was especially crucial as the world was approaching the post pandemic-era and many businesses required funding to rejuvenate their financial health. The lowering of interest rates lowered their cost of funding.

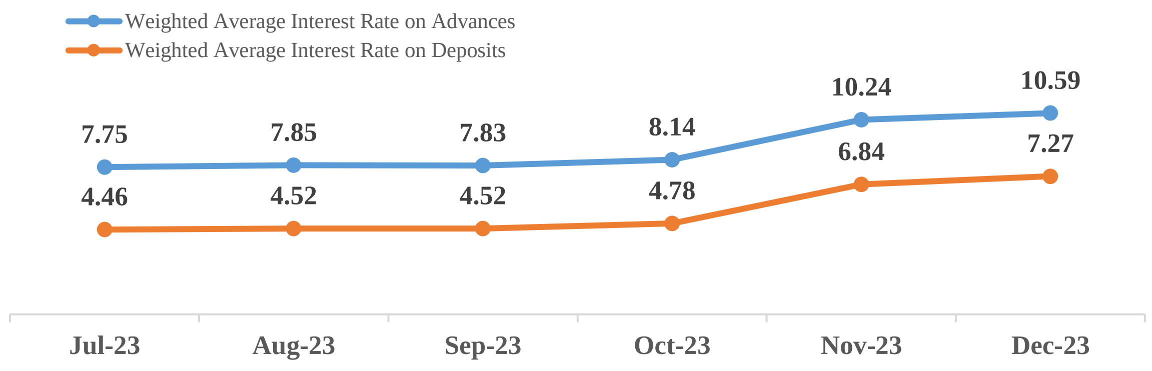

Figure 21: Interest Rates (2023)

Source: Bank Asia PLC Annual Reports

The year 2023, brought in high inflation rates into Bangladesh. The government was struggling to pull down the rates. Hence, the lax policy on interest rates was taken out and higher interest rates were put into place to curb down rising cost of living.

Rising interest rates are not considered healthy for banks as it increases their cost of funding. From late 2023, interest rates have risen dramatically, influenced by inflation. The latest mandate issued by the Bangladesh Bank has put the lending rates at 11.50% and the deposit rate at 8.50% (Jahid, 2024). With inflation nowhere slowing down, situation is only expected to aggravate.

Bank Asia PLC Interest Rate Comparison

Banks maintain competitiveness by offering lucrative interest rates to their clientele. In events of rising interest rates banks lose scope for profitability as it becomes difficult to maintain cost as they are forced to offer higher deposit rates and at the same time lower their lending rates to attract demand. An important function of treasury risk management is Asset-Liability Management (ALM) and loans and deposit form a huge part of a bank's asset and liabilities.

Bank Asia PLC Loan Rates			
Loan Type	**Declared Rate**	**Lowest Rate**	**Highest Rate**
Agriculture, Fishing & Forestry	12.55%	11.55%	13.55%
Industry	13.55%	12.55%	14.55%
Construction	13.55%	12.55%	14.55%
Transport	13.55%	12.55%	14.55%
Trade and Commerce	13.55%	12.55%	14.55%
Other Institutional Loans	13.55%	12.55%	14.55%
Consumer Finance	13.55%	12.55%	14.55%
Miscellaneous	13.55%	13.55%	13.55%

Table 7: Bank Asia PLC Lending Rates as of September 2024
Source: Bank Asia PLC

Eastern Bank PLC Loan Rates			
Loan Type	**Declared Rate**	**Lowest Rate**	**Highest Rate**
Agriculture, Fishing & Forestry	12.00%	11.00%	13.00%
Industry	13.00%	12.00%	14.00%
Construction	12.00%-13.00%	12.00%	14.00%
Transport	13.00%	12.00%	14.00%
Trade and Commerce	12.00%-13.00%	11.00%-14.00%	13.00%-14.00%
Other Institutional Loans	13.00%	12.00%	14.00%
Consumer Finance	13.00%	12.00%	14.00%
Miscellaneous	13.00%	12.00%	14.00%

Table 8: Eastern Bank PLC Lending Rates as of December 2024
Source: Eastern Bank PLC

Dhaka Bank Ltd Loan Rates			
Loan Type	**Declared Rate**	**Lowest Rate**	**Highest Rate**
Agriculture, Fishing & Forestry	12.55%	11.55%	13.55%
Industry	13.55%-13.75%	12.55%-12.75%	14.55%-14.75%
Construction	12.00%-13.55%	11.00%-12.55%	13.00%-14.55%
Transport	13.55%	12.55%	14.55%
Trade and Commerce	12.55%-13.55%	11.55%-12.55%	13.55%-14.55%
Other Institutional Loans	13.00%-13.55%	12.00%-12.55%	14.00%-14.55%
Consumer Finance	12.00%-14.00%	11.00%-13.00%	13.00%-15.00%
Miscellaneous	13.55%	12.55%	14.55%

Table 9: Dhaka Bank Ltd Lending Rates as of October 2024
Source: Dhaka Bank Limited

To understand Bank Asia PLC's performance of their loan management, it is important that their lending rates are compared with peer banks. Table 7, 8 & 9 provide Bank Asia PLC, Eastern Bank PLC and Dhaka Bank Ltd.'s lending rates across similar loan types. It can be observed that Bank Asia PLC offers its loans at a higher rate than its peers. In a scenario where businesses are struggling to maintain their costs, Bank Asia PLC offering higher rates on their loans is not an ideal situation. Their clientele seeing cheaper alternatives available will move their business. As a result Bank Asia PLC's customers will slowly chip away. The treasury department of the bank needs to recognize this problem and aim to offer competitive rates to preserve their competitive stance. The root of this structure can be traced to two primary causes. The first is that Bank Asia PLC is trying to compensate for its higher cost of funds by offering higher loan rates.

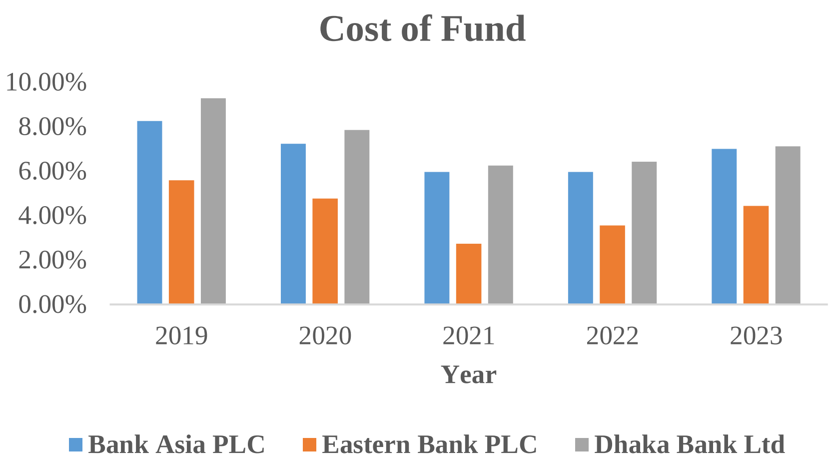

Figure 22:Cost of Fund Comparison
Source: Bank Asia PLC, Eastern Bank PLC and Dhaka Bank Ltd

It can be deduced from the graph that Bank Asia PLC is offering higher loan rates to balance its cost of fund. As per the observations in table 7, 8 and 9 it can be seen that Eastern Bank PLC offers the lowest loan rates amongst the three. The bank is able to do so by keeping its cost of funds significantly lower than the both Bank Asia PLC and Dhaka Bank Ltd. The concerning factor for Bank Asia PLC is that Dhaka Bank Ltd, starting from 2019 had the highest cost of funds amongst the three at almost 10%. Dhaka Bank has managed to significantly lower their cost of funds during this five year. In a time of rising interest rates by Bangladesh Bank, they have managed to lower their cost of fund by nearly 3% in 2023 compared to 2019. At one point they were significantly higher than Bank Asia PLC now have their cost at almost a similar level to that of Bank Asia PLC. If things continue to move at this pace, Bank Asia PLC will be left behind by its competitors. Their market risk will increase. Furthermore, looking at present economic condition of Bangladesh, inflation is expected to continue to swell and keep on putting upward pressure on interest rates. This means if not taken appropriate measures their cost of fund will keep on increasing. A high cost of fund will impact profitability which will impact the bank's capital base negatively. In order to combat the situation Bank Asia PLC will resort to lowering standards for loan approval. This will lead them to lend to high risk clients. Lending to higher risk clients will increase loan defaults. Increase in defaulted loans will put more pressure on the bank's funds. Figure 23, shows a comparison between the three banks NPL ratio from 2019-2023. It can be seen that both Eastern Bank PLC and Dhaka Bank have either maintained their NPL ratio or managed to lower it in this period. However, Bank Asia PLC was not able to change positively.

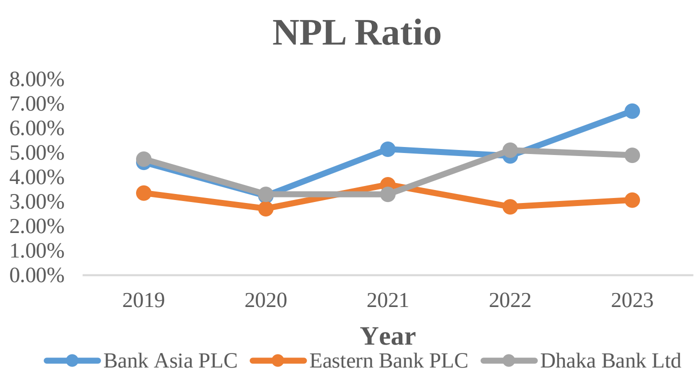

Figure 23:NPL Ratio Comparison
Source: Bank Asia PLC, Eastern Bank PLC& Dhaka Bank Ltd

It can be seen that Bank Asia PLC has a higher NPL ratio compared to its peers. Throughout the five years Eastern Bank PLC has had their NPL ratio lower compared to the other two. On the other hand Dhaka Bank Ltd, was able to successfully curb its rising NPL ratio. Bank Asia PLC and Dhaka Bank Ltd both had their NPL ratio at the same level as Bank Asia PLC in 2019. However, whereas Dhaka Bank saw their NPL% fall, Bank Asia's went on a rising trajectory. This shows that Bank Asia PLC indeed took on high risk clients to justify their high lending rates and offset their high cost of funds. Unfortunately the gamble did not pay off as taking on this increases their loan default rates significantly.

In this scenario there is only one thing that can justify Bank Asia PLC's strategic course. That is the second primary cause behind the higher lending rates, which is that the rates are providing them a higher Net Interest Margin (NIM) then their peers**.** Unfortunately that is not the case as well.

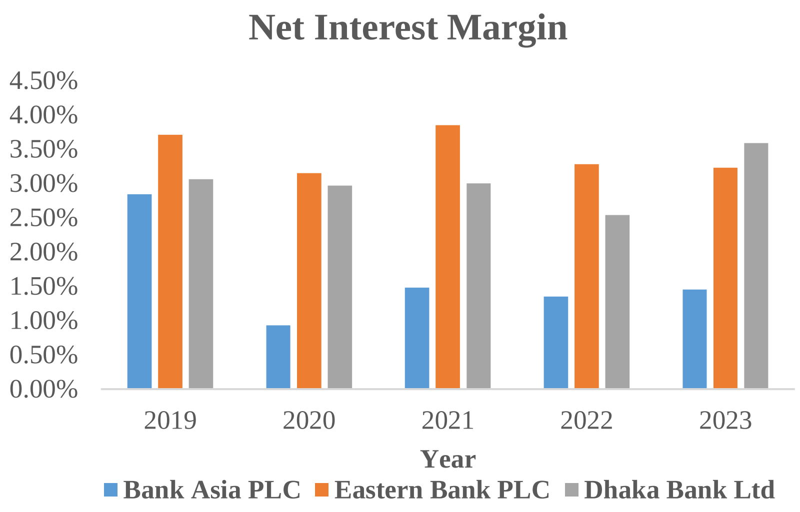

Figure 24:Net Interest Margin Comparison
Source: Bank Asia PLC, Eastern Bank PLC & Dhaka Bank Ltd

Figure 24 shows the NIM% for the three banks. It is apparent from the values that Bank Asia PLC is falling far behind in this category. In this five year period both Eastern Bank PLC and Dhaka Bank Ltd have either had small decrements or increments in their margins. Whereas Bank Asia PLC has seen its margins significantly fall during this five year period. The bank was not able to efficiently use their assets and at the same time did not engage with cost effective funding sources. Bank Asia PLC is especially lacking in performance if compared with Dhaka Bank Ltd, whose loan rates and cost of funding was on a similar level that of Bank Asia PLC. This shows that Bank Asia PLC is not able to properly hedge their interest rate risk**.** Interest rate rises are a double-edged sword. On one hand it rises the income and at the same time it increases expenses if there is a mismatch between asset and liabilities. It can be inferred that the treasury department is not able to manage this risk probably maybe because they are depending too much on short-term funding sources which is leading to an asset-liability mismatch and as a result a low NIM. Dependency on expensive short term borrowings will also lead to a rise in liquidity risk. Rising liquidity risk is a burning problem in the banking industry. The treasury department need to enhance their strategies to better hedge against these conditions are risk potential loses.

Government Securities

Inflation and interest rates also influence another core asset of banks, their investment in government securities. In general government securities and cash are considered to be assets with almost zero risk. Apart from cash, government securities are one of most liquid of assets and are a strong addition to a bank's asset portfolio.

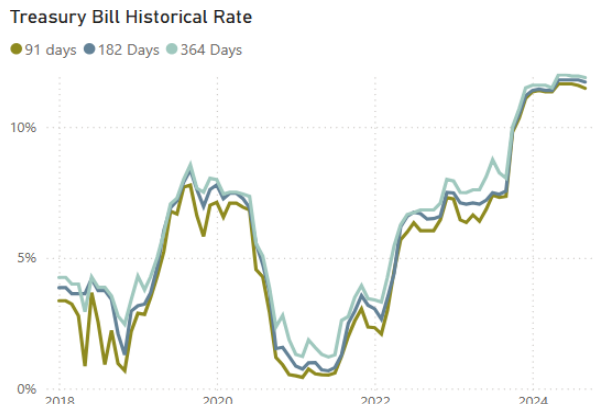

Figure 25: Treasury Bill Rate

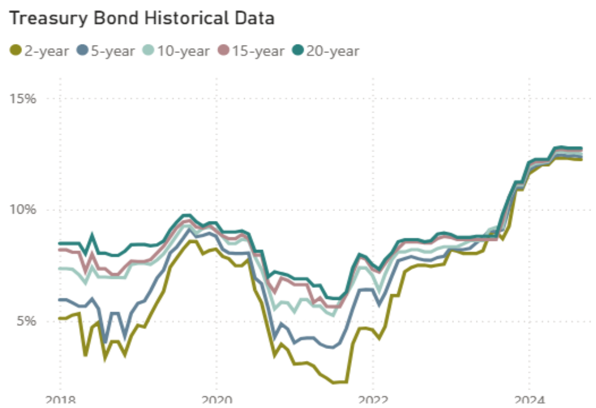

Figure 26: Treasury Bond Rate

Source: Shanta Securities Ltd

Figure 25 & 26 show the rates on government securities in Bangladesh from 2018 to 2019. It can be seen that the rates match that of the movement of interest rates implemented by the central bank. Government securities often trade at a higher rate than deposit rates at banks to appear more lucrative to investors. Treasury managers at banks can schedule their investments in government securities by looking at the movement of bank interest rates.

Figure 27:Investments in government securities

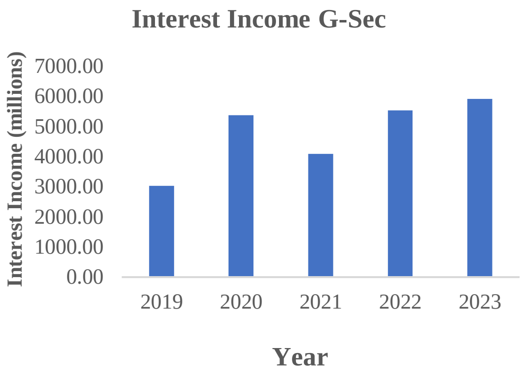

Figure 28:Interest Income on government securities

Source: Bank Asia PLC Annual Reports

Figure 27 and 28 show Bank Asia PLC's investment and income from government securities. In figure 20 it can be observed that in the five year period, interest rates were at their lowest during 2021. As both government securities rate and interest rates move in tandem, it can be seen that during 2021 the rate on government bills and bonds took a sharp dip. The treasury department at Bank Asia PLC took notice of the queue and reduced their investments in government securities during 2021 as seen in figure 27. Treasury bills and bonds come with fixed rate hence when lower rates are issued, investing in new securities during that time period will not be fruitful as when rates increase the bank will not be able to reap the benefits of the higher rates on this securities previously purchased. A bank's objective is to invest in sources that will generate them with the highest possible return. Hence it is strategically logical for banks to take advantage of the low interest rates and increase investment in loans and other assets that will generate a higher return. Figure 15 shows that in 2021 Bank Asia PLC did exactly that, as their risk-weighted assets between 2019 and 2020 were the highest during 2021. Central banks lower interest rates to nurture growth in the economy. This is an opportunity for banks to grab the opportunity they would not have been able to in events of high inflation and interest rates. In 2022 and 2023, as interest rates started to climb back up, the treasury department strategically increased their investment in government securities. High interest rates increase credit risk and hence can put stress on a bank's funding. Investments in government securities act as a cushion for banks against this stress. Bank Asia PLC will have a guaranteed return from them in the form of coupons and, they could be rest assured that they have a good proportion of liquid assets in hand to absorb the risk generated by high risk assets such as loans and corporate bonds.

As of October 2024, the rates for 91-day, 182-day and 364-day Treasury bill stand at 11.75%, 11.90% and 11.80% (The Financial Express, 2024). The rates are 2.25%-2.50% higher than what they were last year (The Financial Express, 2024). Looking at the pace of the changes in rates it would be wise for the Treasury department at Bank Asia PLC to revise their asset mix, particularly their choice on the length of Treasury bills and bonds to include in their portfolio.

3.4.5 Foreign Exchange

One of the main issues plaguing Bangladesh's economy is the volatile foreign exchange market. As a developing country, Bangladesh is prone to shifts in its GDP growth, interest and inflation rates. As a direct consequence of these changes the country's currency, Bangladesh Taka (BDT), is therefore also impacted. Apart from internal issues, there are external factors as well that are impact the valuation of BDT. Factors like global prices of commodities and geopolitics also play a role in determining the value of a currency.

Trading foreign currency is a great source of income for banks. Forex trading is a great outlet of non-interest income for banks and can help the bank generate profits, hedge risk and offer their services on a more global scale.

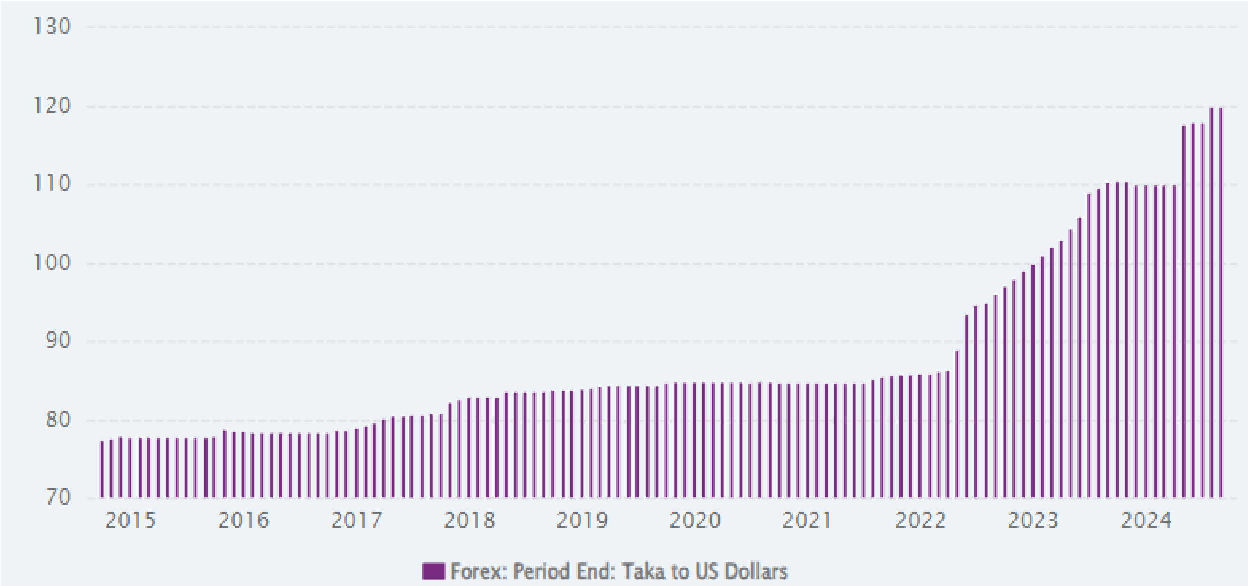

Figure 29: USD/BDT Historical Rate
Source: CEIC

Among all the currencies traded globally, the United States Dollar (USD) holds the most influence. USD is the currency most preferred for international trading and also used to determine the value of a country's reserve. Hence it can be said that a bank's foreign exchange gain is mostly derived from USD trade and is dependent on the position of USD against the local currency. Figure 29 shows the historical rate for USD against BDT for the past decade. It can be seen that prices have been more or less stable from 2015 to 2021. Although BDT has continued to depreciate against the USD, but the changes have been slight and in line with the normal workings of the economy. Bangladesh being a developing country and having a smaller economy compared to USA, is bound to have slight depreciations over time. The concern arises when there a sharp rise, much like what took place in the middle of 2022.

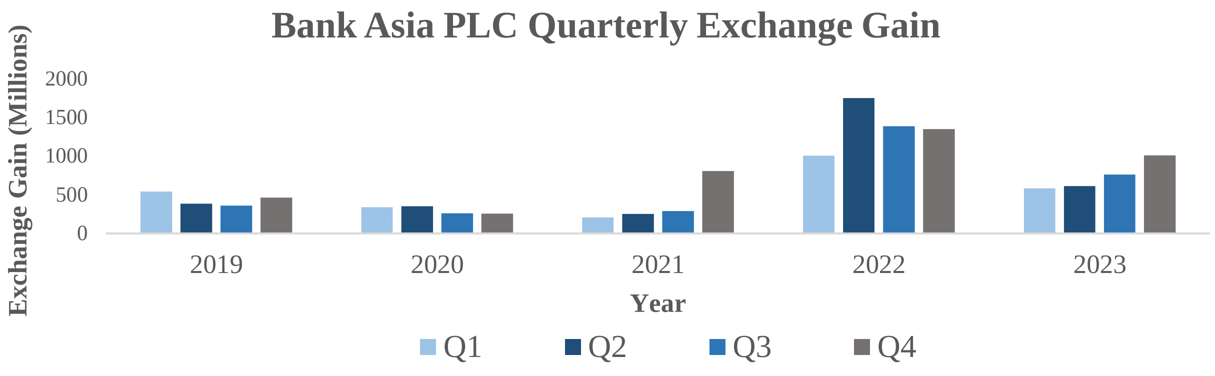

Figure 30: Bank Asia PLC Quarterly Exchange gain
Source: Bank Asia PLC Quarterly and Annual Reports

The Treasury Department at Bank Asia PLC is also responsible for the bank's forex trading operations. Figure 30 shows the quarterly gains of Bank Asia PLC from forex trading. It can be seen that quarterly forex gains have been somewhat even during 2019 and 2020. Things were steady during the first three quarters of 2021. The fourth quarter saw a sharper rise than usual.

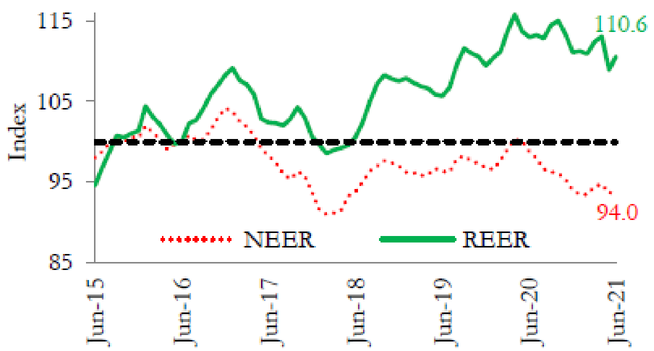

Figure 31:Effective Exchange Rate Indices
Source: Bangladesh Bank

Bangladesh Bank's monetary policy statement for FY21-22, the country's balance of payment improved as well as recorded a surplus. Furthermore, BDT appreciated against the USD. Remittances also grew by over 30%.

By June 2021 Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate started to approach a decline. This improved the conditions of the forex trade conditions of Bangladesh.

Hence it can be assumed that when post June 2021, as BDT appreciated against USD, more people approached banks do receive a better deal for BDT to USD exchange. This increase in demand may have resulted in a spike in earnings for foreign exchange in fourth quarter of 2021.

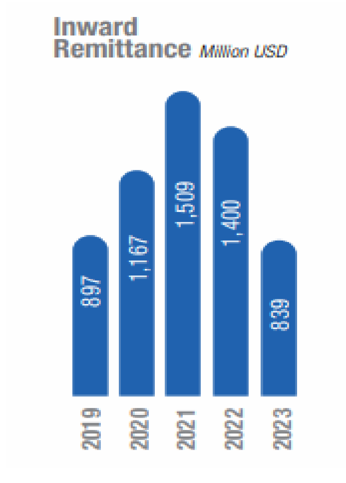

Figure 32:Bank Asia Inward Remittance (2019-2023)
Source: Bank Asia Annual Reports

Between 2019 and 2023, Bank Asia PLC received the highest inward remittance in 2021. A higher volume of Inward remittance meant that more people required the services of Bank Asia PLC to process their remittances. This may have helped the bank earn a good amount of service fee. Moreover with the increased remittances the bank was probably able to gain a good amount of income from the trade through exchange rate differentials. All this may have caused the upsurge in income.

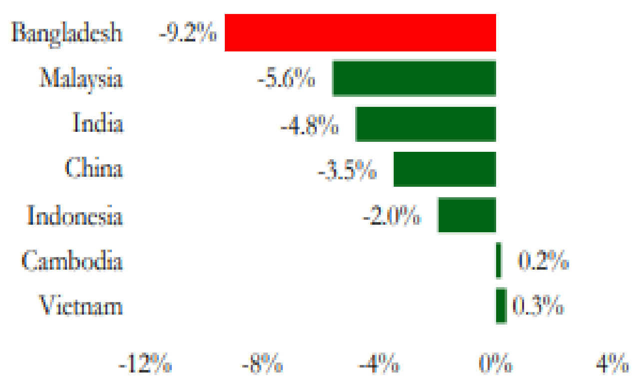

Figure 33:Appreciation and Depreciation of Currencies against USD
Source: Bangladesh Bank

During 2022, BDT significantly depreciated against USD. Poor management of the country's current account and underperforming exports lead the country the country to face a dollar crisis (Paul, 2022). This made BDT rapidly depreciate against USD. It can be seen that during 2022 Bank Asia PLC experienced a higher than usual foreign exchange gain. The rising cost of USD against BDT may have resulted in them earning a higher return from the exchange rate differential.

The dollar crisis for Bangladesh continued well into 2023, which resulted in BDT to depreciate further against USD. Figure 16 shows the change in the form of steep rise during 2023. Bank Asia PLC may have failed to properly hedge risk against this sudden change which resulted in negative growth for foreign exchange earnings. Furthermore 2023, also resulted in the bank recording the lowest inward remittance between 2019 and 2023. This may have also contributed to the decreased foreign exchange earnings. In order to stabilize the foreign exchange market, Bangladesh Bank adopted the crawling peg system in 2024 (Bangladesh Bank, 2024). Although the depreciation of BDT against USD continued, shifting against to a crawling peg system made sure that the exchange rate does not experience abrupt fluctuations. This change will help the treasury department properly design and execute their forex trading strategies.

3.4.6 Asset-Liability Management

All the previous topics discussed in the report explored how economic indicators impact the management of different types of assets and liabilities. Whereas it is important to adjust the performance of individual assets and liabilities based on the indication of economic indicators, strategic success will only be achieved when the duration of this assets and liabilities are appropriately matched. Asset-Liability Management (ALM), is the crucial banking operation that ensures assets and liabilities have appropriately matched duration so that banks achieve financial stability and do not face any liquidity crisis or crumble under a stress situation.

Asset-Liability Duration Gap					
	2019	**2020**	**2021**	**2022**	**2023**
Weighted Average Duration of Assets (DA) (in years)	1.39	1.72	1.88	1.94	1.85
Weighted Average Duration of Liabilities (DL) (in years)	1.17	1.12	1.05	0.81	0.91
Duration Gap (DA - DL) (in years)	0.31	0.70	0.96	1.24	1.00

Table 10: Bank Asia PLC Asset Liability Duration
Source: Bank Asia Annual Reports

Table 10 shows Bank Asia PLC's asset-liability duration gap figures from 2019 to 2023. It can be seen throughout the five year period that the bank's assets have a longer duration than its liabilities.

Compared to the values of 2019, assets duration has become increasingly longer whereas liability duration has adopted a more downward trend, towards a shorter duration. Therefore, assets carry a higher interest rate risk than liabilities (Madura, 2012). The overall asset-liability duration gap is also positive meaning and has become significantly longer over the five-year period.

It is apparent from the discussion conducted in topic 3.4.4, that Bangladesh is unable to control rising inflation and the central bank is continuously increasing interest rates to tackle the situation. Figure 21 showed that interest rates are rapidly rising. As per the latest Bangladesh Bank mandate the rates will rise further. With Bank Asia PLC having assets with a longer duration this situation is detrimental as dramatically rising interest rates would mean the assets will lose their value at a faster rate. On the other hand the over the years liability duration has become shorter and come under 1 year. If looked at the asset duration for 2022 and 2023, is 1.94 and 1.85 years, meaning almost 2 years. The liability duration for 2022 and 2023 are 0.81 and 0.91 years, meaning under 1 year. This implies that Bank Asia PLC's assets take up to 2 years to payback whereas their liabilities are due to be fulfilled in under 1 year. This mismatch has created a concerning gap. Loss of asset value will be higher than the loss of value for liabilities. The overall duration gap during 2019 was 0.31 years. Meaning that the 1% increase in interest rates will reduce the value of the bank's value by 0.31%. This was a fairly safe position considering during 2019 the interest rates were somewhat stable. However, the duration gap jumped to 0.70 years in 2020 and in 2022 become 1.24 years and as of 2023 it is 1 year. Figure 21 showed that interest rates in 2023 increased by almost 3%, this means in 2023 based on the duration gap, Bank Asia PLC saw the value of its equity drop by 3%. With rising interest rates Bank Asia PLC will need to revisit their ALM strategies to lower risk and conserve the value of its equity.

3.4.7 Summary and Conclusions

Under the poorly regulated financial sector of Bangladesh it is important for banks like Bank Asia PLC to be wary of the conditions. With the increasing volatility, it is important that the organization understand the behavior of the economy. As different organizations are trying to move past the shock of the pandemic, Bank Asia PLC has not been able to completely shrug off the effects. Bangladesh's GDP which was on a rising trajectory took a massive hit during the pandemic and crippled businesses. This had increased the risk-weighted assets of the bank significantly in 2021. However, by 2023 the bank was able to lower the risk on its overall assets as well as improve its CAR%. However, the global economy still remains slow. With a slow economy and mismanaged reserves of Bangladesh, Bank Asia PLC's foreign exchange gain experienced a negative growth. On the other hand the rampant rise of inflation by more than 4% in the last 5 years and climbing interest rates is not helping Bank Asia PLC's case. Their cost of funds, net interest margins and NPL% is rising. This is coupled with the fact that the bank's assets are sensitive to interest changes in an environment with a rapidly increasing interest rates. Bank Asia PLC is ranked one of the top private banks in Bangladesh and if they want to maintain this position in such a volatile and competitive market they would need to reassess some of their strategies.

3.4.8 Recommendations

- Bank Asia PLC's CRAR% is at a comfortable place at 16.45%, higher than the required rate of 12.50%. At the same time they have a low value for RWA. In order to boost their performance and properly utilize the benefit of their capital base, they can invest in emerging sectors. Various government schemes are boosting the growth of female entrepreneurs, leading to a rise in SMEs in the country. Bank Asia PLC can utilize their deposits by providing more loans there. Strategic investment in a SME sector where all other players are moving in cautiously can help increase their profits and utilize the ‘first mover advantage’ in the sector.

- Bank Asia PLC also commits its funds towards sustainable businesses. With climate change being of utmost concern and international organizations pressurizing countries to strongly commit to SDG goals, sustainable businesses have a lot of opportunity ahead of them. Such businesses practices and products will become the norm in the future. Hence in order to have proper utilization of their funds, Bank Asia PLC should invest more into sustainable businesses.
- Bank Asia PLC’s higher cost of funds and lower NIM% is not a good sign. Bank Asia PLC has a CDR% of 72.48% in 2023. Before that in the three years from 2020 to 2022 the CDR% was below 70%. Amongst those 28%-30% funds, 12% is retained as cash and the rest is utilized as other forms of investments. Keeping the rest aside the 12% of the total funds sitting idle is generating expense for the bank as the bank has to still pay interest on that amount, resulting in their high cost of funds and low NIM%. Bank Asia PLC should mobilize their deposits, using at least 95% of the available funds.
- The bank’s rising NPL% shows that its credit management department is not able to properly assess the creditworthiness of clients leading to higher defaults. With corruption rampant in Bangladesh, it is natural for organizations to sanction loans on political pressure and not properly assess the debtor. Bank Asia PLC should look into credit assessment and compliance behavior in order to mitigate the problem of default loans.

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Appendix

Bank Asia PLC

Financial Statements

Bank Asia PLC. and its subsidiaries
Consolidated Balance Sheet

as at *31 December 2023*

Amount in Taka

	Notes	31 Dec 2023	31 Dec 2022
PROPERTY AND ASSETS			
Cash		21,776,999,205	25,797,237,229
In hand (including foreign currencies)	4.1(a)	3,768,537,636	4,087,822,688
Balance with Bangladesh Bank and its agent bank (including foreign currencies)	4.2(a)	18,008,461,569	21,709,414,541
Balance with other banks and financial institutions	5(a)	24,131,298,642	39,983,468,523
In Bangladesh		20,332,861,708	37,345,770,086
Outside Bangladesh		3,798,436,934	2,637,698,437
Money at call and on short notice	6(a)	300,000,000	3,750,000,000
Investments	7(a)	115,801,404,654	103,838,255,588
Government		106,782,762,756	94,746,403,719
Others		9,018,641,898	9,091,851,869
Loans and advances/investments	8(a)	294,072,425,920	280,591,467,444
Loans, cash credits, overdrafts, etc/investments		278,592,725,335	257,223,892,759
Bills purchased and discounted		15,479,700,585	23,367,574,685
Fixed assets including premises, furniture and fixtures	9(a)	5,957,156,399	5,704,012,877
Other assets	10(a)	14,594,095,342	11,057,689,200
Non - banking assets		-	-
Total assets		476,633,380,162	470,722,130,861
LIABILITIES AND CAPITAL			
Liabilities			
Borrowings from other banks, financial institutions and agents	11(a)	27,071,897,305	51,024,080,743
Subordinated non-convertible and perpetual bonds	11(aa)	7,680,250,000	9,340,000,000
Deposits and other accounts	12(a)	361,800,728,744	337,853,124,886
Current/Al-wadeeah current accounts and other accounts		73,657,844,411	68,534,148,051
Bills payable		3,958,476,129	4,167,914,951
Savings bank/Mudaraba savings bank deposits		83,493,765,110	78,812,880,761
Fixed deposits/Mudaraba fixed deposits		200,690,643,094	186,338,181,123
Bearer certificates of deposit		-	-
Other deposits		-	-
Other liabilities	13(a)	50,677,766,435	44,041,087,583
Total liabilities		447,230,642,484	442,258,293,212
Capital/shareholders' equity			
Total shareholders' equity		29,402,737,678	28,463,837,649
Paid-up capital	14.2	11,659,068,600	11,659,068,600
Statutory reserve	15	11,750,000,000	11,750,000,000
General and other reserve	15.1(a)	10,257,013	9,926,531
Revaluation reserve	16(a)	2,685,555,009	2,117,047,124
Retained earnings	17(a)	3,350,452,926	2,957,002,831
Foreign currency translation reserve		(52,606,167)	(29,217,722)
Non-controlling interest	17(b)	10,297	10,285
Total liabilities and shareholders' equity		476,633,380,162	470,722,130,861

Bank Asia PLC. and its subsidiaries
Consolidated Profit and Loss Account

for the year ended 31 December 2023

Amount in Taka

	Notes	31 Dec 2023	31 Dec 2022
OPERATING INCOME			
Interest income	20(a)	23,380,598,457	20,484,449,300
Interest paid on deposits and borrowings, etc	21(a)	17,067,340,832	14,937,341,626
Net interest income		6,313,257,625	5,547,107,674
Investment income	22(a)	8,376,526,748	6,270,764,596
Commission, exchange and brokerage	23(a)	5,343,451,964	7,655,343,919
Other operating income	24(a)	1,434,619,446	1,217,933,416
		15,154,598,158	15,144,041,931
Total operating income (A)		21,467,855,783	20,691,149,605
OPERATING EXPENSES			
Salaries and allowances	25(a)	5,407,923,206	5,180,307,624
Rent, taxes, insurance, electricity, etc	26(a)	660,014,031	606,906,079
Legal expenses	27(a)	29,102,855	26,343,367
Postage, stamp, telecommunication, etc	28(a)	194,332,541	157,490,802
Stationery, printing, advertisements, etc	29(a)	174,362,072	177,671,713
Managing Director's salary and fees	30	13,510,000	18,854,125
Directors' fees	31(a)	4,320,500	3,464,000
Auditors' fees	32(a)	4,436,683	3,639,789
Depreciation and repairs of Bank's assets	33(a)	1,026,382,290	979,550,708
Other expenses	34(a)	2,233,858,750	2,667,684,970
Total operating expenses (B)		9,748,242,928	9,821,913,177
Profit before provision (C=A-B)		11,719,612,855	10,869,236,428
Provision for loans and advances/investments			
General provision		2,287,961,643	2,467,292,000
Specific provision		4,266,690,868	1,826,641,239
	13.2(a)	6,554,652,511	4,293,933,239
Provision for off-balance sheet items	13.1.3	195,000,000	(295,000,000)
Provision for diminution in value of investments	13.1.7	90,000,000	-
Other provisions	13.1.8 & 9	50,000,000	250,000,000
Total provision (D)	34(c)	6,889,652,511	4,248,933,239
Total profit before tax (C-D)		4,829,960,344	6,620,303,189
Provision for taxation			
Current tax	13.1.5(a)	2,351,108,689	3,567,972,708
Deferred tax		-	-
		2,351,108,689	3,567,972,708
Net profit after tax		2,478,851,655	3,052,330,481
Appropriations			
Statutory reserve	15	-	1,024,556,060
Coupon/dividend on perpetual bond		389,926,028	25,016,438
General and other reserve		330,482	1,609,440
	15.1(a)	390,256,510	1,051,181,938
Retained surplus		2,088,595,145	2,001,148,543
Attributable to:			
Equity holders of Bank Asia PLC.		2,088,595,133	2,001,148,532
Non-controlling interest		12	11
		2,088,595,145	2,001,148,543
Earnings Per Share (EPS)	37(c)	1.79	2.62

These Financial Statements should be read in conjunction with the annexed notes

Bank Asia PLC. and its subsidiaries
Consolidated Cash Flow Statement

for the year ended 31 December 2023

Amount in Taka

	Notes	31 Dec 2023	31 Dec 2022
Cash flows from operating activities (A)			
Interest receipts		29,935,924,383	27,031,367,925
Interest payments		(17,680,090,550)	(15,663,894,987)
Dividends receipts		527,036,928	88,244,680
Fees and commission receipts		5,343,451,964	7,655,343,919
Recoveries on loans previously written off		326,055,141	347,148,119
Cash payment to employees		(5,307,088,663)	(5,135,929,070)
Cash payment to suppliers		(271,882,653)	(294,891,193)
Income tax paid		(2,860,185,854)	(2,569,789,573)
Receipts from other operating activities	35 (a)	2,076,404,624	1,271,679,392
Payments for other operating activities	36 (a)	(3,139,575,360)	(3,484,383,132)
Operating profit before changes in operating assets & liabilities		8,950,049,960	9,244,896,080
Increase/(decrease) in operating assets and liabilities			
Loans and advances to customers and banks		(13,480,958,476)	(15,591,983,473)
Other assets		(538,335,941)	411,064,662
Deposits from customers and banks		23,947,603,858	19,428,195,021
Trading liabilities		(23,952,183,438)	3,187,929,375
Other liabilities		(1,563,578,265)	(565,596,792)
Net Increase/(decrease) in operating assets and liabilities		(15,587,452,262)	6,869,608,793
Net cash flows from operating activities		(6,637,402,302)	16,114,504,873
Cash flows from investing activities (B)			
Investments in treasury bills, bonds and others		(12,036,359,037)	(24,056,115,796)
Sale/(Purchase) of trading securities		73,209,971	(1,830,705,838)
(Purchase)/disposal of fixed assets		(435,024,064)	(306,931,836)
Net cash flows from/(used in) investing activities		(12,398,173,130)	(26,193,753,470)
Cash flows from financing activities (C)			
Issuance of perpetual bond		340,250,000	3,340,000,000
Coupon/dividend paid on perpetual bond		(389,926,028)	(25,016,438)
Adjustment of subordinated non-convertible bond		(2,000,000,000)	(2,600,000,000)
Payments for lease liability		(487,848,255)	(410,573,674)
Dividend paid (cash dividend)		(1,748,860,290)	(1,748,860,290)
Net cash flows from/(used in) financing activities		(4,286,384,573)	(1,444,450,402)
Net increase/(decrease) in cash and cash equivalents (A+B+C)		(23,321,960,005)	(11,523,698,999)
Effects of exchange rate changes on cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year		69,533,210,852	81,056,909,851
Cash and cash equivalents at the end of the year		46,211,250,847	69,533,210,852
Cash and cash equivalents:			
Cash		3,768,537,636	4,087,822,688
Balance with Bangladesh Bank and its agent bank(s)		18,008,461,569	21,709,414,541
Balance with other banks and financial institutions		24,131,298,642	39,983,468,523
Money at call and on short notice		300,000,000	3,750,000,000
Prize bonds		2,953,000	2,505,100
		46,211,250,847	69,533,210,852

These Financial Statements should be read in conjunction with the annexed notes

Net Interest Margin Calculation

Bank Asia PLC Net Interest Margins					
Year	Interest Income	Interest Expense	Interest Bearing Assets	Average Assets	NIM%
2018			278695.30		
2019	22863.14	14462.38	312059.88	295377.59	2.84%
2020	18112	14926.68	372489.99	342274.935	0.93%
2021	18340.77	12700.89	388166.24	380328.115	1.48%
2022	20423.05	14916.32	426187.54	407176.89	1.35%
2023	23287.06	17053.99	432199.11	429193.325	1.45%

Quarterly Exchange Gain Calculations

	Exchange Gain			
	Q1	Q2	Q3	Q4
2019	543.299449	383.080386	360.015895	464.86542
2020	338.088272	350.532815	260.313267	255.937056
2021	206.454409	253.356278	290.58052	806.873143
2022	1005.303466	1751.347827	1385.432313	1348.446664
2023	582.088199	611.586393	761.30488	1008.150181

Report Proposal

Report Proposal On

"The Role of Economic Indicators in Influencing Treasury Risk Management of Bank Asia PLC"

By

Nuzhat Tanisha
21104011

Submitted To

Dr. Mohammad Enamul Hoque,
Assistant Professor, BRAC Business School
BRAC University

____

Supervisor

Dr. Sayla Sowat Siddique
Assistant Professor, BRAC Business School
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____

Co-Supervisor

Submitted On

29th October, 2024

Objectives

1. Discussing the role of economic indicators in defining or setting a pattern for future economic events
2. Discussing the impact of specific indicators such as GDP Growth Rate, Inflation Rates, and Interest Rates and Unemployment rates on the economy, in particular to banking sector.
3. Analyzing the Treasury Management Performance of Bank Asia PLC using their investment and income from Government Securities, Foreign Exchange Gain, Risk Weighted Assets and Capital Adequacy Ratio over the past 5 years.
4. Recommending possible changes to treasury risk management strategy that be brought using economic indicators to enhance return.

Background Information

Running an organization is becoming more difficult overtime. One would assume that with technological advancements, management would have become easier. Technological advancement has opened doors to new opportunities as well as new competition. New opportunities increase dependency. Businesses are able to conduct trade around the globe, increasing complexities as their income is tied to the condition of several different economic conditions. On the other hand, new competition makes it difficult to excel in the market. In both conditions the business that can emerge victorious is the one that maximizes the utilization of the opportunities by strategically managing the risks.

Banks are the lifeblood of an economy. They make sure funds flow smoothly through the market. However, being lenders to such a wide range of customers, they are also the most vulnerable sector. The Treasury Department of a bank plays a crucial role in managing the bank's risk exposure.

Bangladesh's financial sector is volatile, riddled with corruption and mismanagement. Survival is difficult in such a market for a bank. Bank Asia PLC's treasury department is tasked with navigating risk management strategies in this volatile market. They bank can do so efficiently if they take into account careful analysis of economic indicators that will help guide them towards potential pitfalls and opportunities in the economy.

Preliminary Methodology

The report will carry out an analysis of the bank's treasury management activities and correlate the findings with data gathered on specific economic indicators. The specific economic indicators that will be used for the analysis are GDP Growth Rate, Inflation Rate, Interest Rate and Unemployment rates. The data for these variables will be gathered from secondary sources such as, Bangladesh Bank website, annual reports, newspaper articles and stock market portals.

The data specific to Bank Asia PLC will be collected from the organization's annual reports and company database. Given that, banks are stringent about giving access to entire database, there will be limitations to the analysis as an intern accessibility to data is limited. Hence, the analysis will be conducted based upon limited data.

Significance of the Issue

Bangladesh's fragile political and volatile financial sector increases the potential risks for doing business in the country. In particular the banking sector has been suffering as several banks have shown signs of liquidity problems and are at a risk of encountering failure. Hence, it is extremely important for Bank Asia PLC to learn from the mistakes of other banks develop effective risk management strategies. This can be done using the help of economic indicators.

Timeline of the Report

Date	Details
29th October, 2024	Project Proposal Submission
2nd November, 2024	Analysis of Economic Indicators
7th November, 2024	Completion of Project Part
14th November, 2024	1st Draft Submission
21st November, 2024	Full report completion
30st November, 2024	Final Draft Submission